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United States General Accounting Office

Report to the Chairman, Readiness Subcommittee, Armed Services Committee House of Representatives

May 1986

COMPLETED

STARS AND STRIPES

Appropriated-Fund Support Should Be Reduced

ORIGINAL

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GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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May 7, 1986

The Honorable Dan Daniel
Chairman, Readiness Subcommittee
Committee on Armed Services
United States House of Representatives

Dear Mr. Chairman:

On February 6, 1985, you requested that we conduct a comprehensive analysis of the management and operation of the Stars and Stripes entities. This report describes how the Stars and Stripes mission could be carried out in a more cost-effective manner. It addresses organization changes, reductions in appropriated-fund support, and the issue of advertising in the newspapers.

As arranged with your office, we plan no further distribution of this report until 30 days from the date of the report. Then, we will send copies to the Chairmen, House Committee on Government Operations, Senate Committee on Governmental Affairs, House and Senate Committees on Appropriations and Armed Services, and the Joint Committee on Printing; the Secretaries of Defense, the Army, the Navy, and the Air Force; and the Director of the Office of Management and Budget. Copies will also be made available to other interested parties upon request.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Director

Executive Summary

The growth in the amount of appropriated-fund support received by the European and Pacific entities that publish the Stars and Stripes newspapers has increased interest in consolidating them. This support grew from $3.7 million in 1977 to about $9 million in 1984. At the request of the Chairman, Readiness Subcommittee of the House Armed Services Committee, GAO reviewed the management and operation of these entities to see whether consolidation would be advisable.

Background

The mission of the two Stars and Stripes newspapers is to provide DOD personnel overseas with (1) international, U.S., and regional news from commercial sources and (2) U.S. Government, DOD, command, and local news. The European Stars and Stripes is distributed primarily in Europe, while the Pacific Stars and Stripes is distributed in the Far East. No Stars and Stripes newspaper is available to DOD personnel in the Southern Command (Central America).

The Stars and Stripes newspapers are two separate entities. These entities are classified as resale activities within DOD's Morale, Welfare and Recreation program. As resale activities, they are supposed to receive a minimum of appropriated-fund support.

Because of financial difficulties, especially those experienced by the Pacific Stars and Stripes in the 1970s, three DOD studies explored consolidation. (See pp. 28 to 29.)

Results in Brief

In lieu of consolidating the entities in the 1970s, DOD chose to allow them to resolve their financial difficulties in other ways, including authorizing them to sell advertising and to use more appropriated funds. DOD does not authorize these benefits for any other government publication or resale activity. These actions have put government publications in competition with commercial publishers, and increased the amount of appropriated funds needed to support the Stars and Stripes newspapers.

Appropriated-fund support could be reduced if the Stars and Stripes newspaper operations were consolidated. Such consolidation would improve the financial condition of a combined Stars and Stripes entity and facilitate effective allocation of resources.

Principal Findings

Advertising

In fiscal year 1984, advertising provided the Stars and Stripes newspapers with $1 million in revenues. Because of its concern that such advertising competes unfairly with the private sector, the Congressional Joint Committee on Printing has asked DOD to reconsider its advertising policy. (See pp. 30 to 37.)

Appropriated-Fund Support

Since 1981, the Stars and Stripes entities have received appropriated-fund support that no other resale activity receives. For example, in fiscal year 1984, the European entity received a subsidy of over $1.5 million by being allowed to use DOD official mail to distribute its newspapers outside Germany. (See pp. 37 to 39.) Also, the Pacific entity received a subsidy of about $1.2 million by being allowed to pay Japanese employees with appropriated funds. (See pp. 39 to 41.) These appropriated funds are used to pay expenses that would otherwise be paid with nonappropriated funds. Thus, profits increase and are used to modernize and expand operations.

Advantages of Consolidation

Consolidation of the two entities into one, with newspaper operations being merged, would offer many advantages. The major advantage would be an improved financial condition for the new combined resale activity. GAO estimated that, had Stars and Stripes newspapers been merged in 1984, operating expenses would have been reduced $2.5 million. (See pp. 52 to 53.)

Consolidation could make additional savings possible if the merged staffs were located in the United States. For example, most of the living-quarters allowances now paid to Stars and Stripes employees living abroad could be eliminated. In 1984, these allowances cost $632,606. (See pp. 53 to 54.)

A second advantage of consolidation would be that Stars and Stripes resources could be allocated where and when they are needed. At the present time, the profits of one entity are not shared with the other entity. (See p. 54.) Before 1984, no mechanism existed whereby profits from one Stars and Stripes entity could be used to cover expenses of the other. Although a mechanism was established in 1984, consolidation would facilitate sharing of revenues.

Price Increase of European Stars and Stripes

The European Stars and Stripes is now sold for $.15; the Pacific Stars and Stripes is sold for $.25. If the price of the European Stars and Stripes increased to $.25, revenues would be increased by $3.3 million. (See pp. 50 to 51.)

Reduction of Appropriated-Fund Support

The combined effect of increasing the price of the European Stars and Stripes and reducing operating expenses through consolidation would permit elimination of the appropriated-fund support being used to mail Stars and Stripes newspapers in Europe and to pay Japanese employees in the Pacific. (See pp. 52 to 53.)

DOD Objections to Consolidation

DOD has objected to consolidating the Stars and Stripes because it believes that a single entity would cause the newspaper to lose its local character, and the news would be less timely. However, GAO believes that the local character of the newspaper could be retained by designating a certain amount of space for this type of news, as is now done in the Pacific Stars and Stripes. (See pp. 55 to 56.) Furthermore, GAO believes that the loss in timeliness of news may not be a significant problem. For most readers, it will be a minimal loss. Also, up-to-date news is available through other media, such as the Armed Forces Radio and Television Network. (See pp. 56 to 58.)

Consolidating financial operations can be done immediately. While management decisions need to be made on how best to merge newspaper operations, GAO believes that such merged operations would be the best way to minimize the level of appropriated-fund support for this resale activity.

Agency Comments and GAO Evaluation

In a draft of this report, GAO recommended that the Secretary of Defense

- establish a single business and financial entity with responsibility for carrying out the Stars and Stripes mission; and
- take the steps necessary to merge the newspapers' editorial and production operations, probably in the United States, except for printing and local news gathering.

DOD disagreed with GAO's recommendations, stating that sufficient analyses do not exist to support a consolidation decision. However, DOD agreed that an in-depth study should be conducted to identify actions necessary to assure the effectiveness and viability of the Stars and

Stripes. DOD said that a study to begin in early fiscal year 1987, under the auspices of a DOD Management Action Group, will include an evaluation of the merits of a potential consolidation of the Stars and Stripes entities. (See pp. 65 and 66.)

GAO believes that its analysis, based on prior studies and on trends in the national and international newspaper industry, is sufficient to support a consolidation decision. Consolidating the editorial function and transmitting the edited paper via satellite to decentralized printing locations, as is done by the International Herald Tribune and USA Today, is a viable, practical, and economical means of providing an international newspaper. Current technology makes consolidation more feasible and practical. However, GAO has no objections to another study before such an important decision as consolidation is made. GAO believes that the study should begin as soon as possible, address ways to reduce appropriated-fund support, and be reported to the Secretary of Defense.

Recommendation

GAO recommends that the Secretary of Defense direct that the Stars and Stripes study begin as soon as possible, address consolidation and alternative ways to reduce appropriated-fund support, and be reported to him.

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Abbreviations

A&L	Acquisition and Logistics
AFS&S	American Forces Stars and Stripes
ASD	Assistant Secretary of Defense
CINC	Commander in Chief
DAS	Defense Audit Service
DOD	Department of Defense
ES&S	European Stars and Stripes
FM&P	Force Management and Personnel
GAO	General Accounting Office
JCP	Joint Committee on Printing
MI&L	Manpower, Installations and Logistics
MRA&L	Manpower, Reserve Affairs and Logistics
MWR	Morale, Welfare and Recreation
NAFI	Nonappropriated Fund Instrumentality
OSD	Office of the Secretary of Defense
PA	Public Affairs
PS&S	Pacific Stars and Stripes
USCINCEUR	U.S. Commander in Chief, Europe
USCINCPAC	U.S. Commander in Chief, Pacific

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Introduction

The Department of Defense (DOD) has two Stars and Stripes newspapers, one published in Europe and one in the Pacific. Although both are authorized, unofficial publications of DOD with the common mission of providing (1) international, U.S., and regional news and (2) U.S. Government, DOD, and local news to DOD personnel overseas, they are independent of each other.

From the beginning, the two Stars and Stripes have been published by separate entities. The first edition of the European Stars and Stripes was published on April 18, 1942, becoming a daily newspaper on November 2, 1942. The first edition of the Pacific Stars and Stripes was published on October 3, 1945. Initially, both papers were produced entirely by military members. Today, both newspapers are published and produced primarily by civilians and are distributed throughout areas of Europe, the Middle East, and the Far East, as shown in table 1.1. A Stars and Stripes newspaper has never been available to DOD personnel in the Southern Command (Central America), where approximately 32,000 Americans were stationed in 1984.

Table 1.1: Average Daily Newspaper Circulation

European Stars and Stripes		Pacific Stars and Stripes	
Locations	**No. distributed daily**	**Locations**	**No. distributed daily**
Germany	98,974	Japan	9,233
Netherlands/Holland	1,187	Okinawa	8,238
United Kingdom	8,863	Philippines	9,210
Iceland	90	Korea	10,770
Norway	203	Guam	1,740
Spain	4,418	Hong Kong/	
Italy	6,078	Diego Garcia/	
Greece	1,963	Other	1,018
Turkey	2,084		
Saudi Arabia	1,887		
Egypt	144		
Other	5,265		
Total	**131,156**	**Total**	**40,209**

Over the years, the size of the newspapers (number of pages) and their prices have increased while circulation has fluctuated. The European Stars and Stripes began as a 12-page paper which sold for $.05 and had a circulation of over a million copies per day during World War II. Its size increased to 16 pages in 1953, to 24 pages in 1954, and to its current size of 28 pages in 1969. Its price increased to $.10 in 1971, and to its current price of $.15 in 1973. Circulation dropped to approximately

60,000 copies per day in the immediate post-War years, and climbed to a high of about 175,000 during the 1950s. Its current circulation is about 130,000 copies per day.

The Pacific Stars and Stripes was initially a free 4-page newspaper until 1951 when it sold for $.05. Its size increased to 16 pages in 1952, to 24 pages in 1956, and to its current size of 28 pages in 1983. Its price increased to $.10 in 1961, to $.15 in 1973, to $.20 in 1975, and to its current price of $.25 in 1977. Circulation grew to over 200,000 copies a day during the Vietnam conflict and then dropped to a low of just over 37,000 copies in 1981. Its circulation in 1984 was about 40,000 copies a day.

As figures 1.1 and 1.2 indicate, the two newspapers are similar in format though different in content. Both contain approximately 28 tabloid-sized pages of news daily, plus 4-page advertising inserts when warranted. The European Stars and Stripes also publishes a 16-page magazine supplement once a week.

Figure 1.1: Front Page of European Stars and Stripes, March 19, 1985

Our 40th Year
1945-1985

Pacific Stars and Stripes

40th Year, No. 77 25¢ Tuesday, March 19, 1985

Maryland ousts Midshipmen; No. 3 Michigan upset in NCAA
Page 28

U.S. experts split on response to new Soviet nukes

WASHINGTON — The Soviet Union apparently has begun to deploy its long-expected new mobile intercontinental missiles, and U.S. officials are divided over how to respond.

The Soviets also are destroying some older silo-based missiles, a move some officials believe means Moscow may be preparing to stay within the limits of the SALT II arms control agreement.

These officials, including some top-ranking military men, also think the mobile missiles, if swapped for silo-based ones, result in a less-threatening nuclear arrangement. Therefore, they want to encourage Moscow to stay within the SALT II limits and destroy old silo-based ICBMs as the new weapons are deployed.

TO HELP accomplish this, these officials believe, the United States should move to extend the limits when the agreement expires at the end of this year.

But other administration officials think the favor of the mobile missiles being deployed, the single-warhead SS25, violates the SALT II treaty. Deployment of it and a longer, rail-mobile, 10-warhead SS24 missile, they say, will be destabilizing and result in a new escalation of the nuclear arms race.

They want the United States to oppose the new weapons.

The new Soviet missiles are bound to come up as a subject in the early strategic nuclear arms discussions between the two nations, which began last week in Geneva as part of a negotiation of the SALT II limits.

In an interview this month Col. Gen. Nikolai Chervov, a member of the Soviet general staff and spokesman on arms control matters, said the United States and the Soviet Union had agreed to discuss the Salt II limits at Geneva.

THE REPORTED Soviet deployment puts added pressure on the negotiators to continue some limit while they attempt to achieve reductions. In addition, if it takes no action the United States will exceed another of the Salt II limits, permitting only 1,200 multiwarhead missiles on land and sea, when the submarine Alaska is scheduled to go on sea trials this fall with 24 missiles.

There are signs of deployment of the single-warhead SS25 at two Russian missile fields, according to intelligence sources.

Concrete shelters for 24 single-warhead, mobile SS25s at the Yoshkar-Ola missile base, and another 24 at the Yurya field, have been completed. At Yoshkar-Ola, where the Soviets have 60 SS13s in silos, there are signs those silos are being reworked. The

See SOVIET, Page 2

A friendly encounter

Spec. 4 Istvan Cernik of the 7th Infantry Division from Fort Ord, Calif., says some friends during a Team Spirit '85 break. The division was on its way to the front line position when it stopped in Yoju, 30 miles south of Seoul. See related stories, Pages 13, 14 and 16.

(USAF Lee Schading)

Scornful N. Korean press releases give reporters a smile

UNITED NATIONS (UPI) — The blistering rhetoric of the Security Council and General Assembly is, to use a diplomatic phrase, "well known" and just as well reported by U.N. correspondents.

Less familiar are the vitriolic press releases emanating from the permanent observer mission of the Democratic People's Republic of Korea, better known as North Korea.

A fairly even flow of these handouts in scorching and sometimes quaint English is

See U.N., Page 2

Combat death toll up in FY '84

WASHINGTON (AP) — More than 2,300 active-duty military personnel lost their lives during fiscal year 1984 in mishaps and combat, a total swollen by the bombing of the Marine compound in Beirut and the invasion of Grenada, the Pentagon said.

Overall, 2,306 active-duty military personnel died during the year ending Sept. 30, 1984, compared to 2,203 the previous year. However, 274 servicemembers lost their lives during "hostile actions" compared to only six during fiscal year 1983.

The number killed by accident, illness, suicide or homicide declined from 2,197 in 1983 to 2,032 last year. At the end of both years, the total number of active-duty personnel stood at roughly 2.1 million.

A second report said the Pentagon's dollar losses from Class A accidents dropped nearly 50 percent in calendar 1984 compared to 1983 — from $1.1 billion to $457.5 million — thanks to an improvement in aviation safety.

In calendar 1984, dollar losses caused by Class A aircraft accidents totaled $724.7 million, compared to $962 million the previous year.

A Class A accident is one in which there is a fatality or in which damage of $500,000 or more is caused. Last year the report shows, 165 planes and helicopters were destroyed in aviation mishaps, compared to 191 the year before.

The annual fatality report, Worldwide U.S. Active Duty Military Personnel Co-nalties, released last week, provided no details of specific deaths but helped identify trends.

The statistics appeared to show that servicemembers were healthier, did a better job avoiding training accidents and were less likely to commit suicide in 1984.

For example, the 1984 report

See FATALITIES, Page 2

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Figure 1.2: Front Page of Pacific Stars and Stripes, March 19, 1985

inside stripes

☐ Aspin says MX is needed ..... Page 5
☐ Nunn warns of overselling 'Star Wars' ..... Page 9
☐ Foreign trade deficit passes $100 billion ..... Page 28

The STARS and STRIPES
AUTHORIZED UNOFFICIAL PUBLICATION FOR THE U.S. ARMED FORCES
Vol. 41, No. 334 Tuesday, March 19, 1985 D 8693 A

'Realistic' Reagan lashes Soviets

QUEBEC (AP) — President Reagan, turning sharply from the conciliatory line of recent speeches, lashed the Kremlin Monday for what he said was its violations of human rights and arms control accords from Yalta to Helsinki.

"As much as we hope for greater stability through arms control," Reagan said in an address to Canada's federal and provincial leaders, "we must remember that U.S. record of compliance with [agreements] has been poor.

"The Soviet Union signed the Yalta accord pledging free elections, then proceeded to dominate Eastern Europe," the president said. They signed the Geneva Convention banning use of chemical weapons, and SALT II limiting development of new weapons, and the ABM treaty, but are now violating all three.

"And they signed the Helsinki accord solemnly pledging respect for human rights, but they jailed the individuals trying to monitor it in the U.S.S.R.

Reagan hurled the same charges at Moscow before ... But a blunt attack was anticipated following reports of his invitation to Mikhail Gorbachev, the new head of the Soviet Communist Party, to a summit.

Asked about the change in tone, an administration official said Reagan was merely being "realistic" and wanted to describe the situation as it is.

Another aide said that although Reagan is prepared to

See REAGAN on Page 28

AP photo

Aftermath of tornado

Wrecked beach-front houses mark the path of a tornado that whirled through Venice, Fla., Sunday, bringing sudden death to two people and injuring at least 40 others. Hundreds of buildings were damaged by the storm. (Story on Page 28)

Senate panel urges funding 21 MX missiles

WASHINGTON (AP) — The Republican-led Senate Armed Services Committee voted 11-6 Monday to recommend freeing $1.5 billion to build and install 21 additional MX missiles.

Committee Chairman Barry Goldwater predicted an extremely close vote Tuesday when the full Senate decides whether to approve the next stage in President Reagan's plan to add a total of 100 MXs to the United States' nuclear arsenal.

Senate Majority Leader Robert Dole said, however, that he is confident that the MX will be approved.

Goldwater, who had previously said that he would oppose the MX, voted for it on Monday, saying, "A vote against it would indicate a defeat for the president, that would be the dangerous thing, not the loss of the missile."

Despite the defeat for MX foes in the committee, they pledged a tough fight on the Senate floor Tuesday and again Thursday, when a second vote is scheduled.

Sen. Gary Hart, D-Colo., said he believes one of the reasons Reagan agreed to resume arms-control negotiations with the Soviet Union last week was to make sure that Congress provided funds for the MX.

"It is the first time we have gone to the Russians to get a new missile system approved in the United States," said Hart, who has been a staunch opponent of the missile.

The MX, said Hart, is "destabilizing, a war-fighting weapon. It is designed for a first strike."

In addition to Goldwater, another previously undecided Republican, James Abdnor of South Dakota, announced he would vote for the MX. But South Dakota's other Republican senator, Larry Pressler, said he would oppose the weapon.

An Associated Press survey showed 44 senators favoring the MX, with 43 opposed and 13 still undecided.

If the Senate gives its approval, another dual set of votes is scheduled in the Democrat-controlled House of Representatives next week.

As the Senate vote neared, Vice President George Bush intensified the rhetoric surrounding the long-range, 10-warhead missile, which opponents say would be destroyed in the first wave of a Soviet nuclear attack. The Reagan administration plans to base the highly accurate weapon in existing underground silos in the western states of Nebraska and Wyoming.

"If Congress pulls the rug out from under our negotiators in Geneva, the damage to our hopes for successful arms talks may be irreversible," Bush said.

34 of 43 Barbarossa travel offices open

By The Stars and Stripes

Barbarossa Travel Agency opened for business Monday in 34 of the 43 locations included in its travel-services contract with the U.S. Army in Europe, according to Barbarossa owner Wolfgang Scherer.

The offices that did not open Monday were closed because of circumstances beyond his control, Scherer said. Most of them were in places where Barbarossa was to take over an office previously operated by American Express Travel Service, Scherer said (Related story, Page 2.)

American Express, which has had the ... over on the military travel market for nearly 40 years, lost out to Barbarossa in bidding for a sole-source concessionaire contract. American Express offices stopped selling Friday, but they will remain open in some locations to complete any pending transactions. The contract requires that all offices close by June 14.

Scherer described the first day of business as "hectic," with many minor problems that were to expected. "Otherwise, it's working out very well," he said.

Scherer said he applied to the Agency Investigation Panel for Germany for licenses for 75 locations. AIP will investigate each office before a license is granted with the International Airline Transport Association, which represents 136 airlines worldwide. A license allows an office to issue tickets for member airlines.

In the meantime, Scherer said, he has reached an agreement with Delta Air Lines and World Airways that allows him to provide air site ticketing. He said 50,000 airline tickets worth about $40 million have been distributed to the Barbarossa outlets around the command.

Barbarossa travel agents in Munich said they had everything Monday but ticket-

See DEBUT on Page 28

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Mission

According to DOD, the Stars and Stripes mission is:

1. To bring DOD personnel and their dependents the same international, national, and regional news and opinion from commercial sources available to newspapers throughout the United States. This news makes possible the continued intelligent exercise of the responsibilities of citizenship by DOD personnel while they serve away from home. It helps their morale and readiness by dispelling rumor and by keeping them in touch with many aspects of life in the United States while they live in unfamiliar surroundings.

2. To provide applicable U.S. Government, DOD, command, and local news and information, which improves individual capability for mission accomplishment and brings a sense of joint mission purpose to the Army, Navy, Air Force, and Marine personnel operating together to carry out the U.S. defense mission overseas.

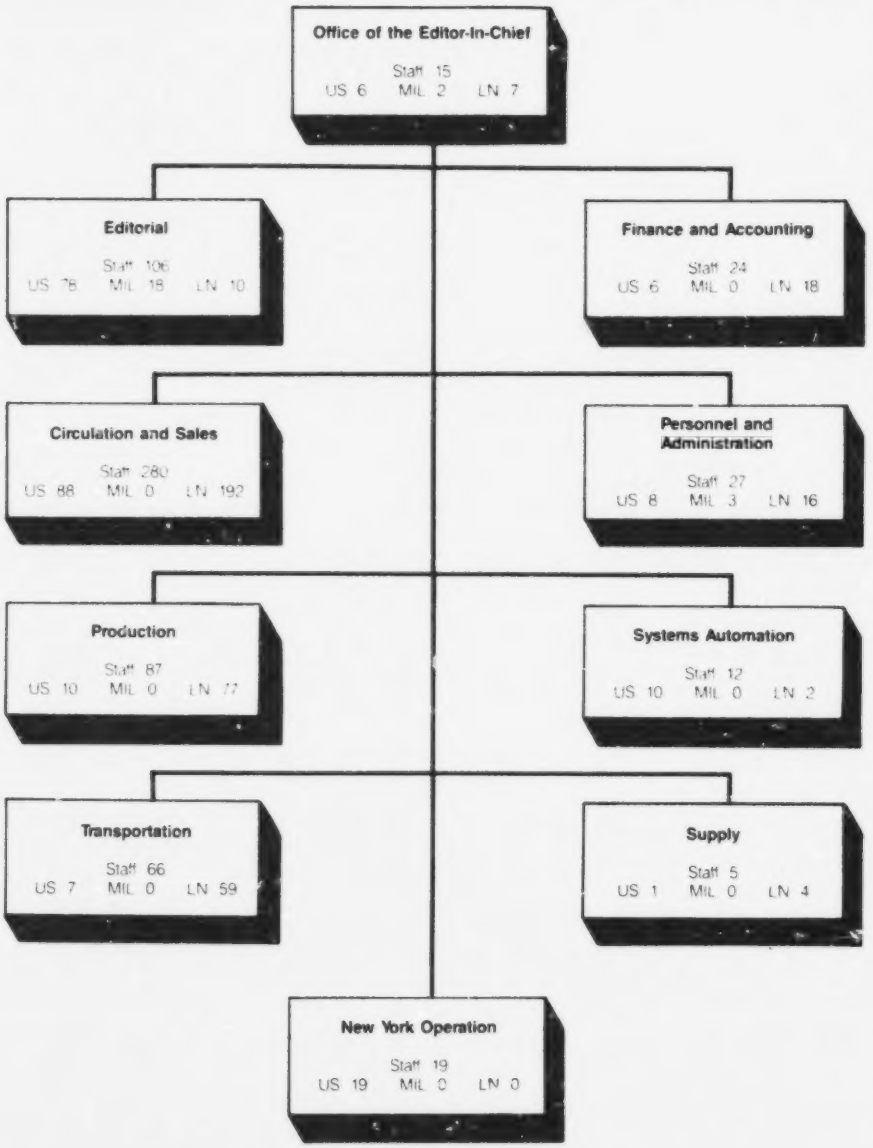
To satisfy the first part of their mission, both papers buy their international, U.S., and regional news from commercial sources, such as the Associated Press or United Press International. While the editors are free to select the stories they want from those that come across the wires and to condense them, they are not allowed to add more details or to interpret them.

To satisfy the second part of their mission, both papers print U.S. Government and DOD news provided by Pentagon news sources and local news gathered by Stars and Stripes reporters in Europe and the Pacific. The European Stars and Stripes publishes most of this news in its weekly magazine supplement, but it also publishes a few articles of this type in each day's paper. The Pacific Stars and Stripes devotes about four pages a day to this type of news.

Stars and Stripes Organization and Staffing

While the two Stars and Stripes entities have the same mission and provide the same services, they are independent of each other because they are tenant organizations of their respective unified commands. Consequently, though their organization and staffing are similar, there are some major differences in organization and staffing. (See figures 1.3 and 1.4.)

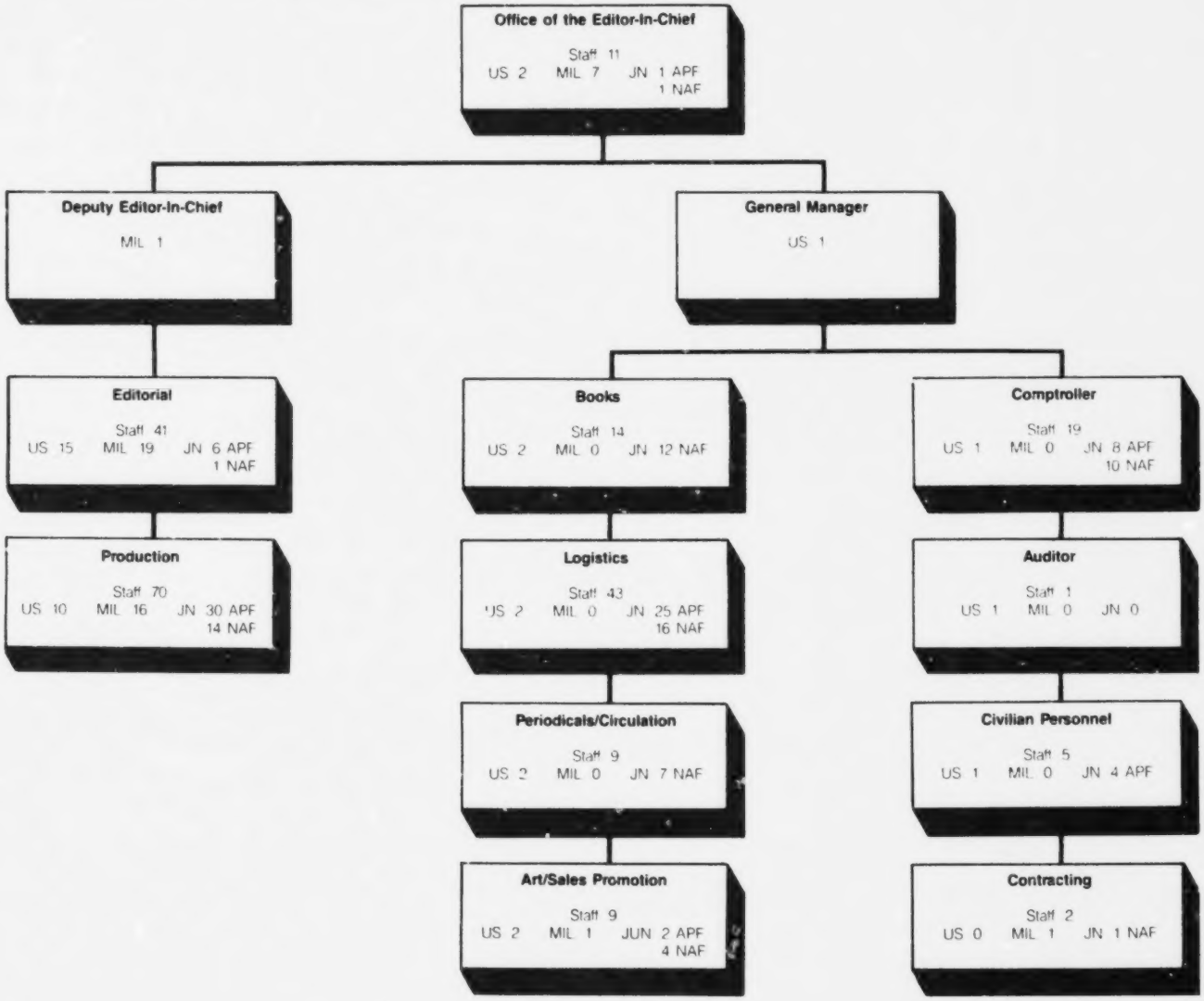
Figure 1.3: European Stars and Stripes Organization and Staffing



Total Staffing 641

Appropriated Funded		Nonappropriated Funded	
US Military (MIL)	23	US Civilians (US)	233
		Local Nationals (LN)	385

Figure 1.4: Pacific Stars and Stripes Organization and Staffing



Total Staffing 226

Appropriated Funded		Nonappropriated Funded	
US Military (MIL)	45	US Civilians (US)	39
Japanese Nationals (JN)	76	Japanese Nationals (JN)	66

The staffs for the two Stars and Stripes entities differ in size and composition and in the way they are paid. Total staffing for the European entity was 641 as of February 1985. Total staffing for the Pacific entity was 226 as of January 1985. The primary reason for this difference is that the European entity receives, breaks down, and distributes the books and magazines it sells, while the Pacific entity uses the drop-shipment method, whereby most books and magazines are shipped directly to its area contractors who distribute and sell them.

Another reason for the difference is that the European Stars and Stripes has an editorial staff of 106 and a production staff of 87 to edit and produce its newspapers, while the Pacific Stars and Stripes has an editorial staff of 41 and a production staff of 70. According to DOD officials, the editorial-staff figure for the European Stars and Stripes includes 23 composers, whereas composers are included in the production figure for the Pacific Stars and Stripes. Therefore, for comparability of editorial and production staff for these two organizations, the figures for the European Stars and Stripes would be 83 editorial and 110 production.

A difference also exists in the composition of each entity's staff. For example, the European entity has over three times as many civilians as the Pacific entity has, and the Pacific entity has almost twice the number of military personnel as the European entity has. (See table 1.2.)

Table 1.2: Staffing as of February 1985

	European entity	Pacific entity
U S military	23	45
U S civilians	233	39
Local nationals	385	142
Total	**641**	**226**

Still another difference between the two staffs is that only the 23 European military staff are paid with appropriated funds, while over half, or 121, of the 226 Pacific staff are paid in this way.

Printing and Distribution

The Stars and Stripes newspapers are edited and produced in a similar manner. Pacific Stars and Stripes equipment for receiving, editing, and paginating allows those functions to be more automated than those in Europe. The Pacific equipment is digitized, allowing information to be passed automatically from the wire services into its mainline computer, from the mainline computer to the editing machines, and from the

editing machines back through the mainline computer to the pagination equipment. In Europe, the process is manual. Wire-service news is transmitted from New York by teletype; articles are then entered into electronic editing machines; and finally the pages are paginated with electronic composing equipment.

Both entities use similar photographic and platemaking equipment. The European Stars and Stripes has two presses. One prints the paper and is almost 20 years old. The other press, which is over 30 years old, is used to print military unit newspapers and the Sunday comics and as a backup for the newer press; it could not be used to print the paper on a continuous basis. The Pacific Stars and Stripes has three presses capable of printing the paper but uses only one. All three are about 18 years old, and two are identical. One is used to print the paper, one prints the weekly comics, and the other prints military-unit newspapers. Each serves as a backup for the others.

Three editions of the European Stars and Stripes are printed each day in Darmstadt, West Germany. The edition printed at 9:00 a.m. is sent to Greece, Italy, Spain, Turkey, the United Kingdom, and other distant locations. While this edition is basically the same paper as the two previous print runs at 9:40 p.m. and 12:30 a.m., it is dated the following day because it will not be distributed until then. Most of these papers are distributed through the Army Post Office. The edition printed at 12:30 a.m. is sent throughout most of West Germany. The edition printed at 9:40 p.m. is sent to Belgium, The Netherlands, and distant locations in West Germany. (See app. I for a map of the area served by the European Stars and Stripes.)

Six editions of the Pacific Stars and Stripes are printed each day (the first beginning at 10:40 a.m. and the last at 3:30 p.m.) in Tokyo, Japan, and then distributed to troops throughout the Far East. A separate edition exists for Guam, Japan, Okinawa, and the Philippines, with two editions for South Korea. As with the European Stars and Stripes, the printing schedule for each edition is based on the time and distance required to get the paper distributed. Since all locations except those in the vicinity of Tokyo require several hours of transportation time, all Pacific Stars and Stripes editions printed on a given day are dated the following day. (See app. I for a map of the area served by the Pacific Stars and Stripes.)

Objectives, Scope, and Methodology

We reviewed the management and operation of the Stars and Stripes entities at the request of the Chairman, Readiness Subcommittee of the House Armed Services Committee. During this review, conducted from February through October 1985, we were specifically requested to address the possibility of consolidating the two entities.

To address the issue of consolidation, we identified and reviewed previous studies on the subject. We also examined the DOD alternatives to consolidation that were implemented, comparing the financial impact of the alternatives on fiscal year 1984 profits to those which might have existed had consolidation been implemented, and identifying other pros and cons relative to the issue, such as impact on service.

We gathered information on the management practices and policies by interviewing responsible officials, reviewing applicable documents and records, and observing the operations of the two entities. Our work was conducted primarily at

- the Office of the Secretary of Defense and Army offices, Washington, D.C.;
- the European Stars and Stripes office, Darmstadt, West Germany; and
- the Pacific Stars and Stripes office, Tokyo, Japan.

We also visited the following locations:

- U.S. Commander in Chief, Pacific (USCINCPAC), Public Affairs Office, Honolulu, Hawaii;
- U.S. Commander in Chief, Europe (USCINCEUR), Public Affairs Office, Stuttgart, West Germany;
- Army and Air Force Exchange Service Headquarters, Dallas, Texas;
- Army and Air Force Exchange Service, Pacific Headquarters, Honolulu, Hawaii;
- Army and Air Force Exchange Service, Europe Headquarters, Munich, West Germany;
- U.S. Army Japan Comptroller and Inspector General Offices, Camp Zama, Japan;
- Pacific Air Forces Contracting Office, Yokota Air Base, Japan;
- Navy Resale and Support Services Office, Staten Island, New York;
- Congressional Joint Committee on Printing, Washington, D.C.;
- International Herald Tribune, Paris, France; and
- USA Today, Arlington, Virginia.

On December 23, 1985, we sent a draft of this report to the Secretary of Defense with a request that DOD provide official written comments within 30 days. In January 1986, DOD requested, and we granted, a 30-day extension to February 21, 1986. On that day, DOD officials provided us oral comments. Before we finished incorporating DOD's oral comments, we received DOD's formal comments. Since the formal comments differ only slightly from the oral comments, we decided to incorporate as appropriate DOD's official position. The comments are included as appendix III.

Our work was performed in accordance with generally accepted government auditing standards.

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What Is Stars and Stripes?

Our views on the nature of the Stars and Stripes entities differ from those of DOD in two ways. We regard the entities as resale activities within the Morale, Welfare and Recreation (MWR) program and, consequently, believe that they should be funded with a minimum of appropriated funds. In contrast, DOD believes that the Stars and Stripes entities are hybrid organizations because the newspapers—or at least that portion of each paper that supports DOD's internal information program—are operational mission activities while the other activities are resale. DOD treated the newspapers as well as the entities as resale activities from 1951 until 1978, when DOD revised a regulation which allowed the newspapers to receive appropriated-fund support to which other resale activities were not entitled. This different classification for the newspapers, which was financially driven, now appears to be the basis for DOD's position that the newspapers are not resale but rather mission activities. DOD's position is that the newspapers are essential for the unified commanders to carry out their responsibilities for commanding, controlling, and directing the operational forces to execute their assigned mission. DOD believes that, since a portion of each paper supports its command's internal information program, the papers should be administered separately. Recognizing the differences in these two views is important in considering the pros and cons of consolidating the two entities versus maintaining two independent newspapers and organizations for them.

The Stars and Stripes Entities Are Within the Morale, Welfare and Recreation Program

The Stars and Stripes entities are within DOD's MWR program. This program offers such activities as recreational and self-development programs and resale merchandise and services, which are designed to contribute to the mental and physical well-being of service members. These activities may be funded wholly with appropriated funds, primarily with nonappropriated funds, or a combination of both types of funds.

Within this program, the Stars and Stripes entities are classified as resale activities. Resale activities are normally required to be self-supporting in terms of operating expenses for their civilian employees; the purchasing of operating equipment, stock, and supplies; transportation; utilities; and maintenance. However, when resale activities are located overseas, they are authorized appropriated-fund support for some expenses in such categories as utilities, maintenance, and transportation. For example, appropriated funds may be used to ship books and magazines overseas, but nonappropriated funds must be used for further distribution.

The Stars and Stripes entities engage in several revenue-producing operations in addition to selling newspapers. The largest of these operations is the sale of other publications, including periodicals and paperback and hardback books. Each entity also operates a print shop which prints military unit newspapers and does commercial printing for authorized DOD users. In addition, both receive revenues from advertisements placed in their newspapers. The entities use the profits from these three operations to subsidize the newspapers and to expand and modernize their operations. Table 2.1 shows the audited revenues and profits generated from all four operations in fiscal year 1984.

Table 2.1: Revenues and Operating Profits, Fiscal Year 1984

Dollars in millions

	Europe		Pacific		Total	
	Revenues	Profit/Loss	Revenues	Profit/Loss	Revenues	Profit/Loss
Newspaper	$6.4	$(5.1)	$3.5	$(.6)	$9.9	$(5.7)
Resale publications	37.4	7.5	11.7	1.0	49.1	8.5
Print shop	1.8	0.5	.7	.3	2.5	.8
Advertising	.6	.4	.4	.2	1.0	.6
Total	**$46.2**	**$3.3**	**$16.3**	**$.9**	**$62.5**	**$4.2**

Note: Profits for fiscal year 1985, as shown by unaudited financial statements, increased to $5.2 million—$4.5 million for Europe and $.7 million for the Pacific.

The European entity procures, distributes, and retails books, periodicals, newspapers, and other printed materials of an informational, educational, or entertaining nature. These functions are centralized at Darmstadt, where bulk shipments of resale publications are received from its Bayonne, New Jersey, warehouse; stored; and broken down for further distribution. Resale publications are then sent throughout the European area. Retail sales are carried out by contracted newscarriers, vendors, and its 206 bookstores.

The Pacific entity also procures and retails books and periodicals for sale in its 23 bookstores and by other vendors. However, distribution of these products—except hardback books—is accomplished by shipments from the publisher to area contractors serving mainland Japan, Okinawa, South Korea, the Philippines, Guam, and Hong Kong. Consequently, this drop-shipment arrangement precludes the need for the Pacific entity to store and break down bulk shipments from the publishers.

Nonappropriated-Fund Support

The Stars and Stripes entities receive revenues from their operations. These revenues are nonappropriated funds which DOD requires to be recorded and reported by an authorized Nonappropriated Fund Instrumentality (NAFI). The entities were organized as Department of Army NAFIs in 1951. Army NAFIs are established and operated under departmental regulations issued by order of the Secretary of the Army that have the force and effect of law. Over the years, more and more Army regulations for administering nonappropriated funds are being based on DOD directives, instructions, and other regulatory issuances.

Appropriated-Fund Support

DOD authorizes some appropriated-fund support for the Stars and Stripes entities. In fiscal year 1984, $58.2 million of their $67.2 million operating costs and other expenses was paid with nonappropriated funds, and about $9 million (13 percent) was paid with appropriated funds.

Table 2.2 shows by categories the appropriated-fund support received for fiscal year 1984, as reported in the annual MWR report.

Table 2.2: Appropriated-Fund Support Received, Fiscal Year 1984

Category	Europe	Pacific	Total Amount
Personnel			
Military	$1,016,426	$ 761,323	$1,777,749
Civilian		1,173,501	1,173,501
Utilities	638,053	350,445	988,498
Communications	5,900		5,900
Maintenance and repair			
Equipment	1,249	15,929	17,178
Facilities	184,172	293,238	477,410
Transportation			
Things[a]	2,910,552	1,351,830	4,262,382
Persons	33,700	71,080	104,780
Other expenses	60,950	82,256	143,206
	$4,595,899	**$4,354,705**	**$8,950,604**

[a]Includes $1.5 million for use of official DOD mail.

DOD Organization for Stars and Stripes

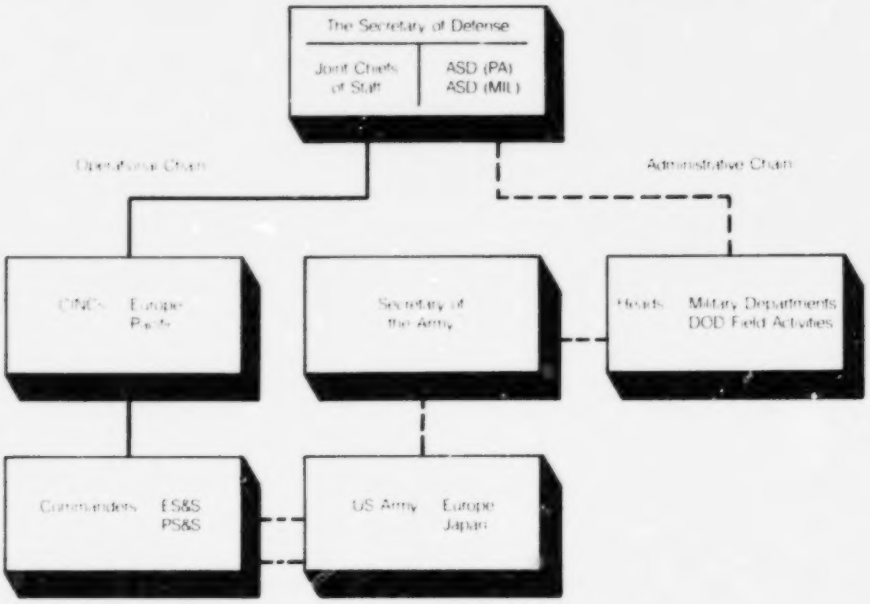
The Stars and Stripes entities operate as hybrid organizations under the direct command of the unified Commanders in Chief. The Secretary of Defense is the civilian manager for the Stars and Stripes entities. In the administrative chain, the Assistant Secretaries of Defense (ASD) for

Public Affairs (PA) and Manpower, Installations and Logistics (MI&L)[1] issue the principal DOD policy guidance affecting the entities. The ASD(PA) issues policy guidance on printed matter while the ASD(MI&L) issues guidance on personnel matters and for nonappropriated-fund instrumentalities. The American Forces Information Services, a DOD field activity under the direction, authority, and control of the ASD(PA), is the designated DOD point of contact in the United States for unified command newspaper matters. The Secretary of the Army, through the U.S. Army units in Europe and Japan, provides administrative and logistical support to the Stars and Stripes entities and ensures that financial policies and procedures are followed as prescribed by DOD.

In the operational chain, the Secretary of Defense, through the Joint Chiefs of Staff, issues operational commands to the Commanders in Chief (CINCs) for the European and Pacific unified commands. The Commanders in Chief have immediate responsibility for Stars and Stripes newspapers and are the military managers for the Stars and Stripes entities. The entities are tenant organizations of the unified commands, and each Commander in Chief selects and appoints a commander to direct the day-to-day operations of both entities—the European Stars and Stripes (ES&S) and the Pacific Stars and Stripes (PS&S). (See figure 2.1.)

[1] ASD(MI&L) responsibilities have been split into two areas since our review: (1) Force Management and Personnel (FM&P) and (2) Acquisition and Logistics (A&L).

Figure 2.1: DOD Organizational Flowchart



Agency Comments and Our Evaluation

DOD, in its comments on a draft of this report, thought that we misunderstood the nature of the Stars and Stripes organizations and, thus, the amount of appropriated-fund support to which these organizations are entitled. DOD maintains that, since the Stars and Stripes newspapers are DOD mission activities, they are entitled to be funded with appropriations. DOD noted that the Pacific Stars and Stripes was totally supported by appropriated funds for several years. DOD also stated that, because 87 percent of the 1984 funding for the Stars and Stripes was provided by U.S. servicemen overseas, the newspaper is a bargain for U.S. taxpayers, rather than a burden.

The basic difference between DOD's and our views regarding the Stars and Stripes newspapers lies in the mission issue. DOD officials informed us that in their view consolidation would seriously hamper the European and Pacific theater commanders' ability to conduct their essentially separate internal information programs regarding such things as military exercises and geopolitical issues via these papers.

While we agree that the two Stars and Stripes organizations are now separate, hybrid organizations under the direct command of the unified Commanders in Chief, we do not think that they necessarily should be. The fundamental nature of the services provided by each Stars and Stripes entity (newspapers, magazines, books, and printing) are support services which are generally viewed as a part of DOD's MWR program. We believe that a legitimate argument can be made that Stars and Stripes newspapers are resale items. Stars and Stripes entities purchase American, European, and Asian news from the wire services, sell advertising space, produce a newspaper, and then sell the paper. Further, from 1951 to 1978 both Stars and Stripes newspapers were treated as resale items, and it was not until the entities—primarily the Pacific Stars and Stripes—started experiencing financial difficulties that DOD policy was changed regarding these entities. We believe that it is appropriate to seek ways to minimize appropriated-fund support for these entities.

While, as DOD says, the Pacific Stars and Stripes was totally financed with appropriated funds in the 1940s, it was an Army newspaper at that time; it was free, not sold to service personnel; and for three of those years, it was classified as an official Army newspaper.

DOD Explored Consolidation but Chose Other Alternatives

Although DOD explored the possibility of consolidating the Stars and Stripes entities in the 1970s, it chose other alternatives to resolve the entities' financial difficulties. These alternatives included allowing the newspapers to sell advertising space and to receive additional appropriated-fund support. While these actions have enabled the two separate entities to attain better financial positions, they also have

- allowed the newspapers to, in effect, compete with commercial publishers for advertising dollars, and
- increased the taxpayer burden for the newspapers.

Consolidation Has Been Explored

Because the Pacific Stars and Stripes experienced financial difficulties in the 1970s, several studies examined the possibility of consolidating the two Stars and Stripes entities. The financial difficulties were caused by reduced circulation because of troop withdrawals following the Vietnam conflict and the general decline of the U.S. dollar in the international market place. As a result of these difficulties, the Pacific entity's financial viability as a NAFI was threatened.

In September 1974, DOD's A Management Study of Overseas Unified Command Newspapers considered consolidation possible and stated that it would be required if troop declines continued. The study indicated that all functions could possibly be consolidated in Darmstadt, Germany, except for remote printing and distribution. It stated that, if Darmstadt proved to be infeasible, centralization in the Continental United States should be explored.

The subsequent 1977 Defense Audit Service (DAS) Report on the Review of the Management of the European and Pacific Stars and Stripes indicated that consolidation of the two entities in Darmstadt, with facsimile transmission to Japan, "provided the only viable means to reduce personnel and operational costs of the Pacific Stars and Stripes." The DAS report stated

> "Our review of available options showed that the best way to reduce operating costs would be to consolidate selected operations of the Pacific and European Stars and Stripes. Merging some functions of the 2 operations could reduce costs by approximately $2.2 million annually. It would then be unnecessary to obtain an additional $500,000 appropriation in FY 1978 to support the Pacific operation...."

DAS estimated that offsetting costs for facsimile transmission from Germany to Japan would be $440,000 annually. The DAS report recommended that the Assistant Secretary of Defense for Public Affairs

consolidate "the editorial, publication, and business management functions of the Pacific Stars and Stripes with the European Stars and Stripes organization."

In February 1978, a DOD study concluded that the formation of an American Forces Stars and Stripes was feasible and contained an activation planning document for such an entity. However, the study also concluded that consolidation was imprudent if the two entities could be kept financially viable through other means. The study stated

"All courses of action to retain separate Stars and Stripes organizations responsive to their respective unified commanders, should be pursued and evaluated. If, after time, results of these initiatives do not reverse the PS&S financial plight, then an additional plan to maximize mutual support should be staffed and evaluated. One possible course of action might be to form an American Forces Stars and Stripes (AFS&S)."

Alternatives Chosen

As alternatives to consolidation, it was subsequently decided that the Stars and Stripes entities' financial difficulties could be resolved by other means, including increasing their revenues by expanding advertising sales and decreasing expenses by using more appropriated funds. As a result of these measures and of the strength of the dollar,[2] both entities enjoyed a favorable financial position, each having reserves set aside for expansion and modernization. (See table 3.1.) A summary of the audited financial statements for each entity as of the end of fiscal year 1984 is contained in appendix III.

Table 3.1: Reserves as of End of Fiscal Year 1984

Dollars in millions

	European Stars and Stripes	Pacific Stars and Stripes
Fixed-asset modernization and replacement	$ 6,151	$1,989
Building construction	2,720	1,085
Severance allowance	1,488	616
Total	**$10,359**	**$3,690**

Note: Unaudited financial statements showed that at the end of fiscal year 1985 reserves had increased to $16.5 million—$11.9 million for Europe and $4.6 million for the Pacific.

[2]Since the completion of our review, the dollar has declined in value. The West Germany currency exchange rate went from over 3 deutshe marks to under 2.5 deutshe marks per U.S. dollar. The Japan currency exchange rate went from about 250 yen to under 200 yen per U.S. dollar.

The two entities plan to use their reserves for fixed-asset modernization and building construction. The European entity has earmarked $2 million of these reserves for a new merchandise warehouse (for resale items other than the newspaper), $.7 million for a new editorial annex, $5.5 million for a rotary offset press, and $.6 million for fixed-asset replacement. According to DOD officials, since our review, the European entity has increased the amount set aside for the warehouse to $2.7 million and has reduced the amount set aside for the press to $5.42 million. Of the $.6 million for fixed-asset replacement, $462,000 has been programmed for building two new bookstores, expanding six bookstores, and renovating various other bookstores in 1985. The Pacific entity has earmarked its building-construction reserves for new bookstores.

Advertising

Until 1976, advertising in government publications was clearly prohibited by the Congressional Joint Committee on Printing (JCP), pursuant to Public Act. No. 314 (P.L. 314, March 1, 1919). In 1976, the JCP granted an exception to this policy for Stars and Stripes newspapers in order to improve their financial situation without increasing the amount of appropriated-fund support received. In 1979, the JCP expanded the Stars and Stripes advertising authority.

In 1984, DOD broadened the advertising policy in its Instruction 5120.4, "DOD Newspapers and Civilian Enterprise Publications." The way in which the Stars and Stripes newspapers have implemented this instruction raises a number of questions. Commercial publishers have objected to DOD's current advertising policy because, in their opinion, it allows Stars and Stripes newspapers to compete with them unfairly. As a result, the JCP has recommended that DOD's policy be changed so that this competition can stop.

JCP Position Before 1976

The broad jurisdiction granted to the JCP in Public Act No. 314 was first applied to advertising in its Regulation No. 5 of September 19, 1919. Section 3 of this regulation states

> "No such [government] publication shall contain any advertisements inserted by or for any private individual, firm, or corporation.... The committee is of the opinion that commercial advertising is not a proper or authorized function of the government."

The Committee gave several reasons to justify this prohibition. It concluded that advertising in government publications would be unfair

- to those who did not advertise since the advertisers might appear to be especially sanctioned by the government,
- to the public because the advertisers would profit at the expense of the government, particularly as the government pays all or part of the circulation costs, and
- to publishers of other periodicals because the latter generally cannot successfully compete with a government publication.

In addition, the Committee was concerned that advertisers could potentially use government periodicals for gaining personal favor with government officials involved in publication. Finally, the Committee noted that most high-quality government publications have always been free from outside connections.

In 1975, DOD's Office of Information for the Armed Forces attempted to obtain an exception to the JCP's advertising policy for the Stars and Stripes newspapers. On March 19, 1975, a letter was sent to the JCP, seeking authorization to carry separate insert advertisements of individual commercial firms in the Pacific Stars and Stripes. In an April 7, 1975, letter to DOD, the Chairman of the JCP refused the request.

JCP Position as of January 23, 1979

Interaction between DOD and the JCP from 1976 to 1979 resulted in the approval of the following forms of advertising in the Stars and Stripes newspapers:

- On May 12, 1976, the Office of Information for the Armed Forces requested that the JCP authorize the European Stars and Stripes to carry advertising by nonappropriated-fund activities, such as clubs and exchanges. In a June 9, 1976, letter, the JCP approved this request.
- On September 23, 1976, the JCP approved military recruiting/retention advertising in both newspapers.
- On January 23, 1979, the JCP expanded Stars and Stripes advertising authority by authorizing the newspapers (1) "to solicit, publish and circulate insert advertising on behalf of DoD supervised banks and U.S. Federal credit unions, in addition to previously authorized nonappropriated fund activities"; and (2) "to publish general price information in insert advertising where appropriate, and to publish limited brand names in instances where such information is essential to accurate and complete information."

DOD 1984 Instruction and Implementation by the European and Pacific Entities

On November 14, 1984, DOD reissued its Instruction 5120.4, "DOD Newspapers and Civilian Enterprise Publications," stating the following with regard to advertising in the Stars and Stripes newspaper:

"To serve the readership the S&S are authorized to solicit, sell, publish, and circulate supplement section advertising, which includes prices and brand names of products and services sold or provided by the following: Nonappropriated fund...and other authorized activities and their concessionaires providing goods, services and entertainment to DOD personnel and dependents; DOD supervised banks and U.S. Federal Credit Unions; colleges and universities affiliated with DOD organizations to provide educational services to DOD personnel and their dependents and North Atlantic Treaty Organization elements and host-government instrumentalities that offer goods and services to DOD personnel and their dependents. S&S has the right to refuse any advertising considered to be illegal, misleading, prejudicial, confusing, or in bad taste. Transactions on advertising will be handled only between S&S and the authorized advertisers listed above...."

This instruction did not include the restrictions on the use of prices and brand names as contained in the JCP letter dated January 23, 1979.

In implementing the new policy, European Stars and Stripes officials stated that, in their opinion, the most significant policy change was the provision allowing the publication of prices and brand names. Before this change, the newspaper published only price ranges or amounts of reduction, and published brand names only in rare instances. For example, an advertisement for a television set before the instruction might have read "color television, save $91," while an advertisement after the instruction might read, "Sony television, $439."

The change in DOD Instruction 5120.4 also expanded the definition of authorized advertisers, which, we believe, has raised some questions. For example, we question the European Stars and Stripes' interpretation of the authorization to accept advertising from "host-government instrumentalities that offer goods and services to DOD personnel." The European Stars and Stripes Advertising Coordinator stated that he interprets this to include state-run airlines, railroads, or other services that are available to DOD personnel. He said that, in his opinion, if Lufthansa Airlines wanted to purchase advertising, the newspaper would be obligated to accept it. However, American Airlines, because they are commercial instead of state-owned, could not directly purchase such advertising. He also said that the newspaper has accepted paid advertising from German railroads and the German Tourist Bureau.

We also question whether some of the concessionaires who receive advertising privileges should be considered authorized advertisers. For

example, the instruction authorizes advertisements from "nonappropriated fund ... and other authorized activities and their concessionaires providing goods, services and entertainment to DoD personnel and dependents." The European Stars and Stripes has interpreted this to mean that they can accept advertisements from concessionaires which are not permanently located at a nonappropriated-fund activity facility, but sell their goods through nonappropriated-fund activities intermittently at bazaars or by other special arrangements. For example, the newspaper ran a half-page advertisement for flokati lamb-wool rugs on March 7, 1985. As figure 3.1 shows, the address to which the order form was to be sent (lower right-hand corner) was the only connection the advertisement had to a nonappropriated-fund activity.

Figure 3.1: Advertisement Appearing in the European Stars and Stripes, March 7, 1985

Page II — Paid Advertisement — Special Insert to The Stars and Stripes — Thursday, March 7, 1985

Flokati: The one luxury your home deserves

Carrying on a tradition of centuries

Now you don't have to visit GREECE to shop at GREEK PRICES. A SELECTION OF THE FINEST QUALITY FLOKATI-RUGS is AVAILABLE FOR YOU TO ORDER DIRECT FROM YOUR OWN HOME.
Our rugs are guaranteed to be woven from pure natural (white, grey, black) sheep's wool of the finest quality. With minimum care they will give lasting pleasure for a generation. Order with complete confidence that the flokaties you select have been specially chosen. Every flokati mailed to our customer is quality inspected and our policy of satisfaction guaranteed applies to every order.

Guaranteed 100% Pure Lambs, Wool

(A) Natural hand-made white

(B) Natural hand-made "Zig-Zag" design

(D) Natural hand-made "Diamond" design

(C) Natural hand-made "Greek Key" design

MAIL ORDER PRICE LIST

Approximate Sizes		Natural White			Natural Design
Feet		MEDIUM AA Heavy Quality	HIGHER AA Heavy Quality	AAA Extra Heavy Quality	only in AAA Extra Heavy Quality
4	5	$ 55.00	$ 70.00	$ 95.00	-
5	6	85.00	95.00	150.00	$ 195.00
5	7	95.00	125.00	215.00	245.00
6	9	165.00	195.00	285.00	335.00
7	10*	190.00	250.00	430.00	-
9	12**	330.00	390.00	570.00	-

THE NATURAL WHITE COMES IN THREE QUALITIES DEPENDING ON THE DENSITY THICKNESS WEIGHT OF EACH FLOKATI
* An 7 × 10) comes in a matching set of 2 (5 × 7) put together with ties for easier handling ** A(9 × 12) comes in a matching set of 2 (6 × 9)

NOTE: Above prices include mailing, full insurance to your A P O F P O or civilian address in the USA. Any item LOST IN TRANSIT WILL OF COURSE be replaced free of charge

DELIVERY: Approximate 4 to 6 weeks from receipt of order to your A P O F P O
Approximate 6 to 12 weeks if mailed to the United States

PAYMENT: Personal checks are accepted from all the members of the United States forces, diplomatic and authorized civilian personnel, or with your credit card: Visa

EASY ORDER FORM
Dear Sir Please send me the following rugs

Description	Quantity	Size	Quality	Item Price	Total Price

My Name .....
My Address .....
.....
.....

The Total Order $ .....
Date of order .....
I've enclosed a check or money order in the amount of $ ..... payable to A. NIKOLAOPOULOS (Sorry, no COD's) or have Diners Club, Visa, American Express, Master Charge charge my account
Card No .....
Expiration Date .....
Signature .....
(Required if using credit card)

SHIP ORDER TO
(Only to APO/FPO Addresses)
.....
.....
.....

MAIL THIS ORDER FORM TO:
c/o AMERICAN OFFICERS CLUB
A. NIKOLAOPOULOS
P.O. BOX 24 (GLYFADA)
ATHENS 166 10 GREECE

Advertising appearing on this page is not endorsed by the Department of Defense, the military departments, or Stars and Stripes.

The Pacific Stars and Stripes was already publishing prices and brand names under certain conditions before the issuance of DOD's instruction, which explicitly authorized such publication. Its reasoning was that, in 1979, the JCP authorized the publishing of prices and brand names when such information was "essential to accurate and complete information." Since the Pacific Stars and Stripes considered prices and brand names to be essential, it published them.

The Pacific Stars and Stripes implemented the DOD instruction in a way in which we believe violates DOD's guidelines. The DOD instruction prohibits the Stars and Stripes newspapers from accepting advertising

BEST COPY AVAILABLE

directly from commercial sources. However, the Pacific Stars and Stripes has run full-page airline advertisements announcing special air fares the companies are offering. (See figure 3.2.) These advertisements were solicited directly from the airlines, and the airlines paid Pacific Stars and Stripes. During the first 6 months of fiscal year 1985, the newspaper received $18,233.50 from this type of advertising, about 6 percent of the $301,184 in total advertising sales for that period.

Objections of Commercial Publishers

In December 1984, shortly after DOD issued its expanded advertising policy, a group of 10 commerical publishers—6 located in the United States and 4 in West Germany—formed an ad hoc committee for working together to curtail or stop advertising in the European Stars and Stripes. Later, 3 of these publishers quit the group. Several other publishers, including the Army Times Publishing Company and publishers of two minor publications, chose not to join the group. However, these and other publishers in the Pacific have independently complained to the JCP concerning advertising in Stars and Stripes newspapers.

The basic complaint of these publishers is that the government is unfairly intervening in the private sector because the Stars and Stripes newspapers are competing with private companies. They complain that, by advertising brand names and specific prices and by charging less for advertising than commercial publications can, the Stars and Stripes newspapers are unfairly competing with them. For example, one black-and-white page of advertising in the European Stars and Stripes costs from $850 to $1,066, depending on the number of editions and insertions, while the cost for one black-and-white page in three publications produced by publishers in the United States and distributed free to DOD personnel overseas ranged from $2,000 to $2,780. Commercial publishers in Europe predict considerable losses in advertising revenues through 1986 if the Stars and Stripes continues its present advertising practices, and believe that these policies will discourage new commercial publications from entering the European or Pacific markets.

While publishers as a whole are fearful of future revenue losses from Stars and Stripes advertising policies, the ad hoc group of seven commercial publishers recently provided 11 specific examples to the JCP of how the Stars and Stripes advertising policy has caused commercial publishers to lose revenues. For example, one publisher who distributes his publications to the military community at no cost to the U.S. government or to the military consumer claims that he has lost from $143,332 to $182,637 in revenues per year. He claims that this represents 11.9 to

Figure 3.2: Advertisement Appearing in the Pacific Stars and Stripes, April 6, 1985

SATURDAY, APRIL 6, 1985
Paid Advertisement — Special Insert to The Pacific Stars and Stripes
Page 1
NOW, IT'S NORTHWEST ORIENT
AMERICA'S #1 AIRLINE ACROSS THE PACIFIC
Military (active and retired), DOD and their dependents fly Northwest Orient from Okinawa to mainland USA because the #1 airline gives
•The only American carrier service in Okinawa
•Nonstops from Japan to 6 US cities
•Convenient connections in the USA to over 50 cities
•The spacious comfort of full sized "4"s.
•Superior care, cuisine and cocktail service
•Substantial savings on fares
Call SATO or your authorized travel agent to find out what the #1 airline can do for you.
OKINAWA
TOKYO
NEW YORK
CHICAGO
LOS ANGELES
SAN FRANCISCO
SEATTLE/TACOMA
HONOLULU
NORTHWEST ORIENT

BEST COPY AVAILABLE

15.2 percent of his total advertising billings for the Pacific area for 1985 and 9.1 to 11.5 percent of his worldwide billings.

JCP Position as of September 1985

In response to these complaints, the Chairman, JCP, in a letter dated September 18, 1985, to the Secretary of Defense, stated

> "I urge you to review this matter seriously and I strongly recommend that actions be taken to stop such competition with the private sector. The simplest solution, I believe, would be to prohibit Stars and Stripes from carrying specific price and brand advertising. Such a prohibition would remove immediately the incentive for full-scale advertising cooperation between manufacturers and the [Army-Air Force Exchange Service]. Private publishers thereafter would be returned to an equal competitive footing in the pursuit of advertising revenue."

The Secretary of Defense responded to the Chairman by a letter dated November 4, 1985, stating that his intent was that "U.S. commercial publishing firms not be harmed by the Department of Defense, providing such damage can be demonstrated." Further, DOD officials told us that "the Stars and Stripes is primarily a publication of the readers who fund most of it, and is not a government publication in the sense intended by the JCP guidance which forbids advertising in government publications." As of April 1986, the JCP and DOD were still exploring the competition issue.

Appropriated-Fund Support

Appropriated-fund support for the Stars and Stripes increased from $3,732,907 in fiscal year 1977 to $5.7 million in fiscal year 1981 to about $9 million in fiscal year 1984. The increase in appropriated funds since 1981 was primarily due to changes in DOD regulations which allowed the Stars and Stripes entities to use appropriated funds that other resale activities are not authorized to use. For example, the European Stars and Stripes uses official DOD mail to distribute its newspapers outside Germany, while other resale activities are prohibited from using this means of distributing goods for sale. Also, the Pacific Stars and Stripes started paying certain Japanese employees from appropriated funds rather than nonappropriated funds, while other resale activities must be self-supporting in regard to their civilian employees.

Use of appropriated funds reduces nonappropriated-fund expenses, thus increasing the profits of the two Stars and Stripes entities. Each entity then uses these profits to modernize and expand its operations. Such profits also enable the European entity to keep its newspaper price at $.15.

Use of Official DOD Mail[3]

In 1975, as a result of congressional committee hearings, DOD stopped the practice of using official DOD mail to distribute items for sale. However, based on an October 1980 DOD legal opinion, the European entity began again in fiscal year 1981 to use official DOD mail for distributing newspapers. The legal opinion read, in part, as follows:

"The Stars and Stripes newspapers... serve as a medium for the flow of command information overseas and act as a necessary morale and welfare activity relating exclusively to the business of the Government of the United States within the meaning of the Domestic Mail Manual, section 137.22a. Accordingly we see no legal prohibition to the use of indicia by the Stars and Stripes newspapers. The indicia should not be used (in accordance with current practices) for other components of the Stars and Stripes organizations including the book outlets and job lot printing centers in that they do not relate exclusively to the business of the Government of the United States within the meaning of section 137.22a of the Domestic Mail Manual and the 1975 opinion of the Office of the General Counsel."

The resumption of the use of official DOD mail was one of several management initiatives taken as a result of the organization's low profitability of $168,203 in 1980. The purpose of this initiative was to reduce nonappropriated-fund expenses. In 1984, the cost of official mail for distributing newspapers through the Army Post Office was about $1.5 million.

DOD Instruction 4525.8, "Official Mail," authorizes the use of official mail by MWR activities and NAFIs under certain conditions. Section E.3 (subsections a and b) of this directive states that NAFIs, including the Stars and Stripes entities, may use official mail "only for official administrative (managerial) mailings related exclusively to the business of the U.S. Government." It explicitly states that official mail may not be used "for any revenue-producing activities."

In November 1984, DOD revised its Instruction 5120.4, "DOD Newspapers and Civilian Enterprise Publications," to authorize the European entity to use appropriated funds for mailing Stars and Stripes newspapers. (Prior versions of this instruction did not contain any similar type of authorization.) The authorization limited the European entity to using these funds to distribute the newspaper to locations outside of the Federal Republic of Germany and to remote and isolated areas. The

[3]Official DOD mail is mail bearing the printed words "Postage and Fees Paid," The name of the DOD component, and the component's code number in the upper right corner; and bearing the words "Official Business, Penalty for Private Use, $300," in the upper left corner under the component's address; or mail with metered postage paid by DOD-component funds. (From DOD Directive 4575.6, Enclosure 2, "Definitions.")

authority to use official mail that was granted to the entity, however, was not extended to the Pacific entity.

Conversions of Japanese Nationals to Appropriated Funds

On October 1, 1981, DOD authorized appropriated funds for the first time to pay civilians working for the Stars and Stripes newspapers. On that date, 67 Japanese nationals who worked on the Pacific Stars and Stripes were converted to appropriated-fund employees. This conversion was approved by the Assistant Secretary of Defense, Manpower, Reserve Affairs and Logistics (ASD[MRA&L])[4] in coordination with the ASD(PA), in January 1981. The 67 positions converted were those identified as being needed if the Pacific entity were a newspaper-only operation, and included only personnel directly involved in the management, editing, production, and distribution of the newspaper. The 67 positions were in the following departments: Editorial, 33; Logistics, 21; Comptroller, 12; and the Front Office, 1. According to the fiscal year 1981 MWR report, this support was necessary to ensure continued survival of the newspaper, which was considered vital to the defense mission.

The Pacific Stars and Stripes converted the payment of another 10 Japanese nationals to appropriated funds on October 1, 1983. The General Manager of the newspaper said that the additional positions were requested by department heads who believed that they had more employees who met the newspaper-only criterion—i.e., those that would be needed if the Pacific entity were a newspaper-only operation. Thus, the Pacific Stars and Stripes had a total of 77 positions paid for out of appropriated funds in 1984, amounting to about $1.2 million. (See table 3.2.)

[4]ASD(MRA&L) has been reorganized twice since 1981. The first time, it was split into (1) Manpower, Installations and Logistics (MI&L) and (2) Reserve Affairs (RA). ASD(MI&L) was later reorganized into FM&P and A&L, as explained on p. 25.

Table 3.2: Pacific Stars and Stripes Net Income Compared With Appropriated-Fund Support Received

Dollars in thousands

Fiscal year[a]	Reported net income (loss)	U.S. appropriated funds for Japanese nationals	U.S. appropriated funds direct subsidy[b]
1970	$ 195	$ •	$ •
1971	322	•	•
1972	140	•	•
1973	(474)	•	•
1974	(193)	•	•
1975[c]	(1,143)	•	•
1976	(322)	•	•
1977	(424)	•	424
1978	(929)	•	500
1979	364	•	•
1980	441	•	•
1981	313	•	•
1982	1,708	1,519	•
1983	1,609	1,055	•
1984	1,483	1,174	•

[a]Fiscal years 1970 to 1974: July 1 to June 30; fiscal years 1976 to 1984: Oct. 1 to Sept. 30.

[b]These subsidies were necessary to pay for operating expenses because the amount of nonappropriated funds available was insufficient.

[c]Fiscal year 1975 covers a 15-month period: July 1, 1974, to Sept. 30, 1975.

By converting the Japanese civilians to appropriated-funded positions, the Pacific entity has avoided paying $3.7 million in expenses from its nonappropriated funds for fiscal years 1982 through 1984. As table 3.2 indicates, if the Pacific entity had paid the salaries and other benefits of the Japanese nationals from nonappropriated funds, its net income would have been significantly reduced for these fiscal years.

Before 1978, the use of appropriated funds to pay civilians working for resale activities within DOD's MWR program was prohibited. In the fiscal year 1978 Defense Appropriations Bill, the conference committee directed that DOD Directive 1315.10, "Assignment of Military Personnel to Morale, Welfare, and Recreation Activities," be revised to emphasize the maximum use of nonappropriated funds for paying civilians. The committee also restricted the number of military personnel that could be assigned to MWR activities in fiscal year 1978 to 12,804, a reduction of 2,000 from the number assigned during fiscal year 1976. This action, in essence, forced DOD to fill these positions with civilians and to pay them

with nonappropriated funds. In revising this directive, however, under the new title of "Assignment of Appropriated Funded Personnel to Morale, Welfare, and Recreation Activities," DOD made an exception to its resale-activities policy so that the Stars and Stripes could use appropriated funds to pay its civilian employees. This exception helped ensure the financial viability of the Pacific entity and marked the first time that civilians working for resale activities could be paid from appropriated funds. The Pacific entity used this authority, beginning in 1981, to pay for civilian employees.

Conclusions

In order to better the financial position of the Stars and Stripes newspapers, DOD has authorized them to accept advertising and to use appropriated funds to distribute the newspapers and to pay civilian employees.

As a result of DOD's current advertising policy, commercial publishers have complained to the JCP that the policy allows the Stars and Stripes newspapers to compete with them unfairly. The Chairman, JCP, has recommended to the Secretary of Defense that DOD's policy be changed.

Use of appropriated funds to distribute newspapers and to pay civilian employees resulted because DOD made exceptions to its general policies regarding official mail and resale activities. These exceptions were made based on DOD's determination that the newspapers are operational mission activities. This resulted in increased appropriated-fund support and decreased operating expenses that would otherwise have been paid by nonappropriated funds and have allowed the Stars and Stripes entities to build substantial reserves to expand and modernize their operations.

Agency Comments and Our Evaluation

DOD did not agree that the purpose of Stars and Stripes advertising is financial or that the newspapers were competing unfairly with private companies. DOD stated that advertising revenues represent a small percentage of total revenues and that the primary purpose of advertising is to provide an additional source of information to overseas personnel concerning the availability of goods and services.

DOD stated that, contrary to the belief of some U.S. and foreign publishers, advertising by the Stars and Stripes and advertising by the commercial media are actually complementary, not detrimental. It noted that commercial publications are used to build brand awareness, while the exchanges use the Stars and Stripes to advertise product availability.

DOD also expressed the view that the 1984 advertising policy update was more of a clarification of policy than an expansion. It stated that the update was coordinated with the JCP and merely consolidated previous authorizations of the JCP and stated them in clearer language.

While DOD stated that the primary purpose of advertising is to inform U.S. Forces personnel and their families of the availability of goods and services in military outlets, it was not the primary basis for requesting such authority. All correspondence we reviewed from 1975 through 1979 clearly shows that advertising authority was requested and granted for financial reasons—to increase Stars and Stripes revenues. For example, the 1978 staff study's conclusion on the unlimited advertising authority being sought by DOD, and the reason for it, was as follows:

"The single most important option which favorably impacts on both the ES&S and PS&S is permission by the JCP to include run-of-the-paper commercial advertising in both papers. Inclusion of paid commercial advertising will immediately impact on the financial prognosis of PS&S and will facilitate adoption of many future management initiatives by both organizations."

While we agree that advertising revenue is a small percentage—about 2.3 percent—of total revenue, it should be noted that in fiscal year 1984 advertising profit was about 14 percent of total profit. We also agree that, for companies with sufficient advertising funds to advertise in both commercial publications and Stars and Stripes newspapers, the advertising is complementary. When advertisements appear in Stars and Stripes newspapers and not in commercial publications that are also devoted to military personnel and their families, we believe that such advertising can be viewed as competition since both commercial and government sources were available and the government source was chosen. Stars and Stripes advertising rates are significantly lower than those of other publications available to service members.

While the November 1984 DOD directive containing the advertising policy for Stars and Stripes was coordinated with the JCP, commercial publishers complained to the JCP following its issuance. The JCP now has concerns about the Stars and Stripes advertising policy.

As for appropriated-fund support, DOD states that Stars and Stripes organizations are hybrid entities that are viewed largely as mission activities and are entitled to appropriated-fund support. It stated that

the European Stars and Stripes newspaper, as a mission activity, is specifically authorized use of official DOD mail for its shipment to remote and isolated areas outside of Germany. As for use of appropriated funds to pay Japanese civilian employees, DOD stated that these employees work only for the mission-related newspaper operations, and not for any aspect of Stars and Stripes resale activities. It stated that this procedure of paying foreign nationals with appropriated funds is available to any NAFI and that the Pacific Stars and Stripes use of this procedure was done with full congressional knowledge.

The use of appropriated funds to pay for foreign national employees of a resale activity other than the Pacific Stars and Stripes would require a change in policy. Nonappropriated fund instrumentalities classified as resale activities within DOD's MWR program, such as the service exchanges, are not authorized to pay their foreign national employees with appropriated funds.

Advantages of a Consolidated Stars and Stripes

Consolidation of the two Stars and Stripes entities into one business and financial entity remains a viable alternative to their use of advertising and receipt of additional appropriated funds. Such consolidation would

- improve the financial condition of a combined Stars and Stripes newspaper,
- allow effective allocation of resources, and
- enable DOD to fulfill its Stars and Stripes mission in a more efficient and cost-effective way.

In the past, DOD has objected to consolidation on the grounds that the newspapers would lose their local character and that the news would be less timely. We believe that these obstacles can be overcome.

A Consolidated Stars and Stripes

Consolidating the two Stars and Stripes entities has been considered within the Office of the Secretary of Defense (OSD) from time to time over the past 11 years. During this time, DOD determined that consolidation was feasible and a possible alternative for improving the entities' financial condition. The decision to consolidate rests with the Secretary of Defense. However, according to OSD officials, this issue has not been presented to the Secretary because they consider consolidation to be of questionable practicality. They say that consolidation might cause major disruptions and might not result in cost advantages.

Since consolidation would require a number of decisions about what the new entity would be, how the paper would be managed, where the central editorial and production facilities would be located, what the editorial and production procedures would be, and how consolidation would be financed, our views on these subjects follow. These views are based primarily on past DOD studies addressing consolidation and on trends in the national and international newspaper industry.

Operations

A consolidated entity could have responsibility for either the existing operations of selling newspapers and other publications or for the newspaper operation alone. In either case, print-shop operations could be continued in Europe and the Pacific as long as the newspapers are to be printed in these locations. If only the newspaper operation is consolidated, the responsibility for resale publications could be assigned to the service exchanges. On the other hand, if resale publications are also consolidated, this operation could offer a consolidated Stars and Stripes entity financial stability and flexibility. If it were decided to consolidate

the resale publications, consideration should be given to reducing the number of local national employees involved in this operation in Europe to minimize the effect of currency fluctuations. One way to do this would be to handle this operation in a manner similar to that of the Pacific entity, which has most publications (except for hardback books) sent directly from the publisher to the area contractors for distribution rather than physically handling them, itself, as a distributor. We believe that this alternative should be studied before any funds are approved for construction of a new merchandise warehouse in Darmstadt, Germany. (See p. 30.)

Regardless of the decision as to what a consolidated Stars and Stripes would be, merging the newspaper functions would offer economic benefits. Consequently, in the discussion that follows, our focus is on the newspaper since it is the reason that the Stars and Stripes entities exist.

Management

Under consolidation, the responsibility for the management of Stars and Stripes could be removed from the unified commands and possibly placed in the American Forces Information Service or the Department of the Army. The American Forces Information Service is the DOD field activity responsible for providing radio and television programs to the armed forces overseas and is the designated point in the United States for unified-command newspaper matters. The Department of the Army currently provides the administrative and logistic support to the Stars and Stripes entities. Placing the management in either of these organizations would allow responsibility for the newspaper to be vested in a single official in the administrative chain of command.

Location

A 1974 DOD study recommended that consolidation in Darmstadt, West Germany, be considered, and a 1977 Defense Audit Service report recommended that consolidation in Darmstadt, West Germany, be made. However, given the advances in data telecommunications, we believe that it might now be practical to locate an American Forces Stars and Stripes in the United States. Consolidating the newspaper operations in the United States could provide economic advantages.

Editorial and Production Procedures

A consolidated Stars and Stripes might be produced in a way similar to that of either USA Today or the International Herald Tribune. USA Today is a national and international newspaper. The international editions are abridged versions of the national paper and consist of 16 to 20

pages. The three versions are edited and produced in the Washington, D.C., area. The national paper is transmitted daily by satellite to 30 locations throughout the United States. The edition for Europe is printed in New York and flown to European markets. However, beginning in May 1986, USA Today will be transmitted via satellite to Zurich, Switzerland, for printing. The Singapore edition is now transmitted via satellite. It takes 3 1/2 minutes to transmit a page to sites in the United States, and 8 minutes per page to Singapore; it will take 5 minutes per page to Europe. While the Singapore single-channel satellite links (New York to London and London to Singapore) are leased 5 1/2 hours a day, the United States line is a dedicated (24 hours a day) two-channel satellite link, and the future European line will also be a dedicated two-channel satellite link.

The Tribune is, on the average, a 20-page newspaper that is edited and produced in Paris and transmitted once each day to six distant printing sites—London, Zurich, Hong Kong, Singapore, The Hague, and Marseille. The Paris-Hong Kong and Paris-Singapore links are satellite links, while the European sites are linked to Paris by cable. Transmission of each page takes 3 to 5 minutes.

The Tribune's Paris-Hong Kong connections, which started in September 1980, marked the first time that satellite transmission of a complete newspaper had been made on a daily basis from one continent to another. This development was facilitated by changes in international telecommunications policies which allowed users to lease such connections on a part-time basis.

The editorial and production procedures of a consolidated Stars and Stripes might be as follows:

- The international, national, regional, U.S. Government, and DOD news could be edited in the U.S. office and transmitted by satellite to Darmstadt, Germany, and Tokyo, Japan. The newspapers would then be printed and distributed to the other points in the respective commands in the same way as they are today.
- Command and local news could be handled in several ways. For example:

1. The news could be gathered in the specific command, as is now being done in the European and Pacific unified commands. It could then be sent back to the United States, edited, and transmitted back to the commands for printing and distribution. Another option would be to retain

one or two editors in each command rather than transmitting the news to the United States and back. A certain amount of space could be designated for this news, with the result that the news would vary for the commands.

2. This news could be taken out of the the Stars and Stripes and published in a separate command newspaper if the unified commander thought it necessary. This would be consistent with the way other commanders disseminate their command news. The Stars and Stripes could then concentrate on providing international, national, and regional news to DOD personnel overseas.

- Only one edition of the Stars and Stripes would be published, instead of the three editions that are now published in Europe and the six editions in the Pacific. This could be done with little loss of timeliness. (See pp. 56 to 58.)

Financing the Consolidation

The capital investment necessary for consolidation could come from the reserves of the two Stars and Stripes entities. The amount of their reserves has consistently grown. (Table 4.1 shows the growth of the European Stars and Stripes reserves from 1980 to 1984.) The reserves for both Europe and the Pacific totaled $14 million at the end of fiscal year 1984, and $16.5 million at the end of fiscal year 1985.

Table 4.1: Growth of European Stars and Stripes Sinking Funds

	1980	1981	1982	1983	1984
Fixed-asset modernization	•	$1,000,000	$5,000,000	$4,664,000	$5,542,000
Fixed-asset replacement	•	•	20,000	20,000	609,000
Building construction	•	•	•	2,720,000	2,720,000
Severance allowance	$1,759,000	1,558,000	1,646,800	1,596,000	1,488,000
Total	**$1,759,000**	**$2,558,000**	**$6,666,800**	**$9,000,000**	**$10,359,000**

Of Europe's 1984 reserves, $8.2 million has been earmarked for buying a new press and constructing a new editorial annex and warehouse, all of which require congressional approval. We believe that these projects may be unnecessary if advertising is prohibited or significantly reduced and consolidation is implemented. For example, the new press would provide a substantial increase in color capability, which the European Stars and Stripes management apparently desires to increase advertising sales. Since the JCP views Stars and Stripes advertising as unfairly

competing with commercial publishers and has recommended that the newspapers stop such competition, this press may not be needed. Moreover, the editorial annex would not be needed if the editorial function is consolidated in the United States. Finally, as discussed on page 17, the warehouse may not be needed if the drop-shipment method for handling resale publications proves to be more advantageous than the current method.

Based on 1978 DOD estimates adjusted for inflation through 1985 for the cost of transmitting and receiving equipment, the $8.2 million available from the above projects, if they are not approved, should be more than sufficient to cover capital investment costs to buy and house the equipment necessary to consolidate the editorial, production, and business functions.

To minimize the capital investment, existing equipment could be used. For example, the Pacific Stars and Stripes has three presses capable of printing the paper. If transportation costs are not prohibitive, one of these could be moved to the Southern Command. In considering consolidation in 1978, a Stars and Stripes staff study suggested moving one of the Pacific presses to Panama City, Panama. Also, the Pacific has up-to-date digitized editorial equipment which could be moved to the United States.

DOD does not agree that the funds committed to business improvement could be used for consolidation or that the projects could be eliminated. DOD states that the funds we indicate could be used for consolidation are not reserves but rather are working capital funds used in the day-to-day business activity and are funds committed to long-established projects planned to substantially enhance operational efficiency and mission effectiveness. It states that consolidation would not obviate the need for operational plant upgrades. A new press would still be needed to replace the current obsolete equipment and, although the drop-shipment method could eliminate the need for the warehouse in Darmstadt, other smaller facilities would then be required. DOD also states that an authorized reserve to buffer changes in the value of foreign currency is currently unfunded, and recent adverse currency shifts are generating additional pressures.

DOD's statement that the reserves we discuss are working capital funds used in the European Stars and Stripes day-to-day business activity is inconsistent with the European Stars and Stripes audited financial statements. The statements show these funds as sinking funds for specific

purposes—primarily for asset modernization and building construction in Europe.

We do not agree that all of the planned projects are solely to enhance operational efficiency and mission effectiveness. For example, if daily Stars and Stripes newspapers are to be expanded to 48 pages like the Thursday edition of the European Stars and Stripes or, if a 4-color capability on multiple pages is required for advertising, the current press would be obsolete and a new press would be needed. However, if neither of these management decisions is made, European Stars and Stripes officials say that the current press could do the printing for at least another 6 or 7 years.

As for warehouse capacity, DOD states that, if drop-shipping to dispersal locations in Europe were begun, the European entity would have to build or enlarge a number of smaller warehouses. We disagree that this is the only management option available. For example, the distributors outside West Germany now receiving goods from the Stars and Stripes warehouse would continue to receive the same goods except now they would come from the United States. Consequently, such distributors would not need new or enlarged facilities. Within West Germany, particularly the central region where American troops are heavily concentrated, continued use of the existing warehouse and distribution methods may be the most cost-effective approach.

Ways to Eliminate Appropriated-Fund Support

The financial situation of the Stars and Stripes would improve by (1) an increase in the price of European Stars and Stripes to $.25 and (2) consolidation, which would permit a reduction in the number of staff required. Operational costs would be further reduced if the Stars and Stripes were located in the United States in that the additional cost of having Americans working abroad could be avoided. Consequently, the papers might no longer need advertising revenues or the additional appropriated-fund support.

Revenues Would Increase If Price of the European Stars and Stripes Were Increased

At present, the European Stars and Stripes sells for $.15, while the Pacific Stars and Stripes sells for $.25. The American Newspaper Publishers Association statistics for 1985 show that 78.2 percent of U.S. daily newspapers sell for $.25, while 11.2 percent sell for more, and 10.6 percent sell for less. It seems reasonable that military members stationed overseas should pay the same as their counterparts stationed in the United States. Had the European Stars and Stripes been priced at

$.25 in 1984, revenues would have been increased somewhere between $3.3 million (assuming decreased sales due to the price increase) and $4.4 million (if sales remained unchanged).

Consolidation of the Two Entities Could Reduce the Number of Staff Required

Consolidation of the editorial, business, and administrative functions of the two Stars and Stripes newspapers could result in a substantial reduction in the number of staff required. The number of staff reductions possible is suggested by the 1977 DAS report and by the present staff levels of the International Herald Tribune.

DAS Estimate of Staff Reductions

In 1977, DAS estimated that consolidation of the two Stars and Stripes entities in Darmstadt, Germany, would have resulted in a reduction of 104 Pacific Stars and Stripes employees—27 U.S. civilians and 77 Japanese. DAS's estimated annual savings of $2.2 million in operational costs was based principally on this reduction. Table 4.2 shows DAS's estimate of staff and operational costs before and after the merger.

Table 4.2: Schedule of Pacific Stars and Stripes Civilian Personnel and Operational Costs Before and After Merger

	Before merger (actual--12/30/76)			After merger (estimated)		
	Staff			Staff		
Function	U.S.	LN[a]	Operating costs	U.S.	LN[a]	Operating costs
Editorial[b]	16	7	$ 890,556	3	0	$ 100,000
Comptroller/Front Office	2	26	435,297	0	2	25,000
Circulation	4	4	2,472,631	2	0	2,200,000
Publications	2	20	358,418	2	10	200,000
Logistics	2	41	508,505	1	20	270,000
Production	11	40	1,093,117	2	29	750,000
Job shop	0	9	251,398	0	9	251,000
Total	**37**	**147**	**$6,009,992**	**10**	**70**	**$3,796,000**

[a]Local Nationals

[b]The European Stars and Stripes editorial staff would require 3 additional members to prepare both newspapers.

DAS's staffing estimates were made with the assistance of the DOD offices responsible for public information (the Office of Information for the Armed Forces—now the American Forces Information Services). We examined DAS's staffing estimates and compared them with information we obtained during our review. For example, the DAS estimate for the number of editors to remain in the Pacific field bureaus to provide local

news after the merger totaled 11 people—3 U.S. civilians as shown and 8 military. At the time of our review, the Pacific Stars and Stripes had 11 editors assigned to its field bureaus to provide local news. We believe that the 1977 DAS estimates were reasonable and that these estimates are still valid since Pacific Stars and Stripes staffing is today essentially the same as it was at the time of the DAS report. (See table 4.3.)

Table 4.3: Comparison of Pacific Stars and Stripes Staff Levels, 1976 and 1985

	Military	U.S. civilians	Japanese nationals	Total
December 1976	41	37	147	225
January 1985	45	39	142	226

DAS estimated that the staff reduction and other related costs would have decreased operating expenses by $2.2 million. This figure adjusted to 1984 dollars would be $3.1 million.

International Herald Tribune

A comparison of the size of the editorial staff at the International Herald Tribune with that of the merged Stars and Stripes staff, per the DAS analysis, indicates that further staff reductions might be possible.

- The International Herald Tribune has an editorial staff of 62 to produce, on the average, a 20-page daily newspaper, which would be about the equivalent in size to a 40-page Stars and Stripes newspaper, since a page of the Stars and Stripes is half the size of a page of the International Herald Tribune and since character size is also smaller in the International Herald Tribune.
- A merged Stars and Stripes would have an editorial staff of 94 (68 civilians and 26 military personnel) to produce a daily paper of 28 tabloid-sized pages. The 94-staff figure is derived by adding the number of the current European Stars and Stripes editorial staff with the number of staff that DAS estimated would need to remain in Japan to provide news of interest within the theater (3 U.S. civilians and 8 military personnel).

If fewer staff remained in Japan, or the number of editorial staff is reduced to be more in line with the International Herald Tribune experience, the 94 positions could be further reduced.

DOD stated that our comparison failed to consider the news-to-advertising ratio between the two newspapers. DOD added that the International Herald Tribune would have to contain approximately 70 to 80

pages to carry the same amount of news that the European Stars and Stripes carries in its 28 pages.

We did not consider news-to-advertising ratio in our draft report. However, our subsequent analysis of a randomly selected 20-page International Herald Tribune (instead of a 16-page newspaper which would have had less advertising) dated July 8, 1985, showed that fewer than 5 pages (4.83 pages) were used for advertising. Since 1 page of the International Herald Tribune contains more printed material than do 2 pages of the European Stars and Stripes, this issue had more than 10 Stars and Stripes-sized pages devoted to advertising. Conversely, it contained more than 30 Stars and Stripes-sized pages of news. Consequently, we believe that our comparison of staffs is still valid for suggesting that consolidated Stars and Stripes staffing might be reduced.

Operating Profits in 1984 If Consolidation Had Been Implemented

If consolidation had been implemented as recommended by DAS and a uniform price of $.25 had been established, our analysis, summarized in tables 4.4 and 4.5, estimates that Stars and Stripes operating profits for fiscal year 1984 could have been $6.7 million—$2.5 million more than the $4.2-million profit the two existing entities actually generated. We believe that this could have been accomplished without advertising and the appropriated-fund support to which no other resale activity is entitled.

Table 4.4: Adjusted Operating Profits, Fiscal Year 1984

Dollars in millions

	Combined operating profits/ losses	Adjustments for		Adjusted combined profits[a]
		Advertising	Appropriated funds	
Newspaper	$ (5.7)	$ •	$ (2.7)	$ (8.4)
Resale publications	8.5	•	•	8.5
Print shop	.8	•	•	.8
Advertising	.6	(.6)	•	•
Total	**$ 4.2**			**$ .9**

[a]Profits that would have existed if advertising revenues and appropriated-fund support to which other revenue-producing activities are not entitled had been unavailable.

Table 4.5: Adjusted Operating Profits Compared With Estimated Consolidation Profits Based on DAS Report, Fiscal Year 1984

Dollars in millions

	Adjusted combined profits/ losses[b]	Consolidation adjustments[a]			Consolidation profits
		Revenues increased[c]	Operating expenses[d] increased	Operating expenses[d] decreased	
Newspaper	$ (8.4)	$ 3.3	$ .6	$ 3.1	$ (2.6)
Resale publications	8.5				8.5
Print shop	.8				.8
Total	**$ .9**				**$ 6.7**

[a]Adjustments for consolidation include increasing revenues to show the effect of a consistent pricing policy set at $ 25, and increasing and decreasing operational expenses reported by DAS, adjusted to 1984 dollars.

[b]Profits that would have existed if advertising revenues and appropriated-fund support to which other revenue-producing activities are not entitled had been unavailable.

[c]Increased revenues were determined by reducing the 43.8 million copies of the European Stars and Stripes sold in 1984 to 39.4 million copies or a 10-percent reduction (the average decline experienced by the Pacific Stars and Stripes when it raised its price to $ 20 and then to $ 25). The 10-percent reduction was, in part, due to troop withdrawals during this period, but we could not separate the effect of troop withdrawals from the effect of the price increase.

[d]The 1976 operating expenses and savings reported by DAS were converted into 1984 dollars. To convert costs for data transmission by satellite to 1984 dollars, the Interstate Private Lines Index, which is the index for interstate microwave transmissions, was judged the closest to this activity and thus the best price index (1.46) to use. To convert savings into 1984 dollars, a conversion factor of 1.42 was used. The conversion factor was calculated by determining the ratio of 1984 operating expenses to those in 1976. This factor was used rather than the Gross National Product (1.62) deflator because it was judged to be more conservative and a better estimate of projected 1984 savings since those management initiatives and technological improvements occurring since 1976 would be taken into account.

The Cost of Having Americans Working Abroad Could Be Reduced

Additional savings could be possible if the merged staffs were located in the United States. U.S. citizens working abroad are entitled to living-quarters allowances. In 1984, the European Stars and Stripes paid $382,671 for living quarters allowances, while the Pacific Stars and Stripes paid $273,151. If the consolidated Stars and Stripes were located in the United States, most of this $655,822 would be saved. Other related areas of savings would be schooling allowances, transportation of household goods and cars, and home leave.

DOD stated that some of the U.S. citizens currently working for Stars and Stripes are actually local hires and do not receive housing and home leave allowances. It also stated that, if the Stars and Stripes were located in the United States, higher wage rates would have to be paid to the workers.

Our potential savings calculation is based on what the Stars and Stripes is paying for living quarters allowances; therefore, the local hires as mentioned by DOD were excluded. We also find DOD's position on wages inconsistent with several other sources—public and private—which indicate that personnel working overseas are paid more than their domestic counterparts.

Consolidation Would Facilitate Effective Allocation of Resources

Since the European and Pacific Stars and Stripes are separate entities, they do not provide financial help to each other when one is in difficulty. For example, in 1977 and 1978, the financial difficulties of the Pacific Stars and Stripes forced it to raise the price of its newspaper to $.25, when the majority of other U.S. papers were selling for only $.15, and to request $924,000 in direct appropriated funds. During these same two years, the European Stars and Stripes made $2,016,356 in profits. Had the two entities been consolidated, the profits from the sale of the Stars and Stripes in Europe would have eliminated the need for the direct appropriated funds and might have kept the newspaper price down.

DOD stated that a 1984 updated DOD instruction now provides a mechanism whereby reserve funds not needed by one entity could be transferred to the other to deal with adverse currency situations. It also stated that, although this action would be taken only after careful consideration, the ability to take the action negates this alleged advantage of consolidation.

While we agree that a mechanism exists, the decisions and agreements necessary to transfer funds make it unlikely it would be used. For example, the instruction provides that (1) the entity to provide funds must first fund its contingencies before unfunded reserves would exist; (2) each entity determines the amount of reserves needed to fund operational contingencies, and (3) all parties (the Stars and Stripes entities, the unified Commanders in Chief, and the U.S. Army's Adjutant General) must agree that a transfer of funds is desirable.

Consolidation Might Enable the Stars and Stripes Newspaper to Be Made Available in the Southern Command

Still another advantage of consolidation is that the improved economic condition of a consolidated Stars and Stripes might make it more practical for all overseas personnel, including those in the Southern Command, to receive a Stars and Stripes newspaper. At present, DOD personnel in the Southern Command do not receive the Stars and Stripes. In 1978, DOD concluded that it would not be cost-effective for either the European Stars and Stripes or the Pacific Stars and Stripes to be sent to the Southern Command. At that time, DOD's marketing research showed that it would take daily sales of 8,700 copies of the Stars and Stripes sold at $.25 each for either entity to provide this service. However, the research projected that sales would average only 6,000 copies daily. The only other alternative would have been to establish a separate Southern Command Stars and Stripes entity, but this would have been even more costly. Through consolidation, it might be economically feasible to provide the Stars and Stripes to the Southern Command.

DOD stated that there is already a unified command newspaper called the Southern Command News, published for the relatively small number of personnel in the Southern Command, and that we did not establish a need for another Southern Command newspaper.

It was not our intent to provide another newspaper to the Southern Command. Rather we point out that a prior DOD study concluded that it would not be cost-effective for either the European or Pacific entity to provide a paper to the Southern Command. Consolidation, which was not considered when the issue was reviewed, might make providing a Stars and Stripes to the Southern Command a viable alternative to the Southern Command News.

Stars and Stripes Could Retain Its Local Character

One of DOD's objections to consolidation is that a consolidated Stars and Stripes would lose its local character. For example, during the fiscal year 1980 hearing held by the Senate Committee on Appropriations, a DOD representative stated that the two organizations are two separate business entities which are oriented to the interests of the troops in the respective theaters. The DOD official further stated:

"Various methods of combining the two papers have been suggested from time to time. Although these suggestions have not been ruled out, combination would require a fundamental realignment of the current basic concept of each being a 'hometown' newspaper to serve the commands and people operating in that area."

Under consolidation, the "hometown" flavor could be retained by designating a certain amount of space for this purpose, just as the Pacific Stars and Stripes currently does. For example, one page could be designated to carry wire-service news of particular interest to each theater and three pages to carry command and local-interest stories, written by Stars and Stripes employees within these commands, as is now being done.

DOD stated that the potential loss of the crossflow of military information and news within the European and Pacific Command areas is a valid argument against consolidation. It said that the local character of a newspaper is maintained by its being a part of the locality and knowing the Command views. Designating several pages as local news would not, in DOD's opinion, automatically retain the local flavor of the news.

We see no reason why the local flavor of news should change. Most news carried in the Stars and Stripes is purchased from wire services, including local news purchased from European and Asian wire services. It appears to us that U.S.-based editors could condense this news without distracting from what is important to personnel living overseas. Other news and military information currently written by local editors could continue by maintaining a small locally based editorial staff.

Timeliness of News

DOD's second major objection to consolidation has been that the news in a consolidated Stars and Stripes would be less timely. This would be generally true for a single edition of Stars and Stripes. However, since up-to-the-minute news is readily available from other sources, the question should be asked whether the newspapers should be subsidized so that service members can have Stars and Stripes news that is a few hours more current. If timeliness is an obstacle to consolidation, it could be overcome but at some reduced savings. It should be noted that the Pacific Stars and Stripes was printed as a single edition during the entity's financial crisis in the late 1970s and returned to multiple editions as its financial condition improved.

News Would Be Less Timely

As DOD has pointed out, the news in a single edition of Stars and Stripes would generally be less timely than the news now appearing in two of the three editions of the European Stars and Stripes and the six editions of the Pacific Stars and Stripes, assuming that news is cut off at 5 p.m. Eastern Standard Time. In Europe, 80 percent of the Stars and Stripes readers are in or near West Germany. With a consolidated single edition,

33 percent would receive news that is 1 hour and 20 minutes more current, and 47 percent would receive news that is 1 hour and 30 minutes less current. The remaining 20 percent, who are outside the vicinity of Germany, would receive news that is 10 hours less current. However, it should be noted that this edition is already post-dated one day because it does not reach readers until the next day. In the Pacific, the loss in timeliness for the news in a single edition would range from 3 hours and 40 minutes to 8 hours and 30 minutes when compared to the current six editions. All six Pacific Stars and Stripes editions are post-dated one day.

Timeliness Versus Costs

The benefits of news timeliness must be weighed against costs. If timeliness of news is considered critical, the current number of editions could be continued. However, to do so would reduce the previously discussed savings that would result from merging newspaper operations. For example, the consolidated editorial function would have to be expanded to provide news updates, and the two printing shifts in Europe would have to be continued.

Up-To-The-Minute News Is Available From Other Sources

American military personnel are not dependent upon the Stars and Stripes to provide up-to-the-minute news. The latest news is readily obtained from radio, TV, and other English-language newspapers.

Availability of American Forces Radio and Television News

Throughout Europe and the Pacific, 5-minute news programs are broadcast hourly. Longer news broadcasts are made during the morning, evening, and late news programs. In Europe, American Forces Radio and Television Service radio provides 3 hours and 45 minutes of news coverage daily. In the Pacific, the American Forces radio provides between 2 and 3 hours of news daily.

The American Forces networks also provide television news in some areas. For example, in Europe, television news is available in West Germany, Berlin, and parts of Belgium and Holland. Television news in the Pacific area is available in Korea, the Philippines, and Japan.

Availability of Commercial English Language Newspapers

Several other daily newspapers are available to DOD personnel overseas. The European Stars and Stripes bookstores sell the International Herald Tribune, U.S.A. Today, and the Wall Street Journal. All Pacific Stars and

Stripes bookstores sell the International Herald Tribune, U.S.A. Today, and the Asian Wall Street Journal. Japan Times is also sold in Stars and Stripes bookstores in Japan and Okinawa; the Okinawa Times, in Okinawa; and Bulletin Today, Daily Express, and Times Journal in the Philippines.

Other English-language newspapers are also available though they are not carried by Stars and Stripes bookstores. For example, in the Pacific, the Asahi Evening News is available in Japan, the Pacific Daily News in Guam, and the Korea Herald and Korea Times in Korea. Assuming that these daily newspapers published and distributed within a country, contain news of the day, such news would be more timely than that in the Pacific Stars and Stripes since it is not available until the day after it is printed.

DOD stated that timeliness is still a valid argument against consolidation. It states that the reason for the existence of any newspaper is to provide the most timely, in-depth news possible to its readers and that Stars and Stripes readers in central Germany have available, in their morning newspaper, reports of matters that happened several hours after the end of the previous working day.

While timeliness is an important aspect to consider in consolidation, so is the cost-effectiveness of how and when the news is provided. Previously, in 1976, when financial conditions were strained, the Pacific Stars and Stripes printed one edition rather than the multiple editions that they were printing. At that time, the resulting loss of timeliness was acceptable to DOD because of financial concerns.

Conclusions

Today, two separate Stars and Stripes entities exist in two different commands. These entities were established to provide a daily newspaper to DOD personnel and their dependents in their respective commands. As time passed, they expanded into other areas—selling other publications and operating print shops. To resolve financial problems, they have also received increased appropriated-fund support, including $2.7 million in fiscal year 1984 for local national employee salaries and free postage.

Consolidating the European and Pacific entities into one business and financial entity could facilitate the sharing of resources and reduce the need for appropriated-fund support. Further, merging most of the newspaper's editorial and production operations, as an alternative to increased financial support, has been considered within OSD for several

years and been considered as a possible alternative for improving the Stars and Stripes' financial condition.

While the financial operations could be merged immediately by authorizing a single entity, the following management decisions would require resolution before newspaper operations could be merged:

- where the editorial and production functions would be located (including the possibility of locating them in the United States),
- how best to use modern technology, such as single-channel or two-channel satellite links and dedicated or leased communications system, and
- what the investment costs would be to merge operations.

In view of the financial concerns facing the federal government today, we believe that every reasonable effort needs to be taken to minimize the level of appropriated-fund support for such activities as the Stars and Stripes. Consolidation would improve the papers' financial position. We believe that the $2.5 million in increased profits that could be expected by merging the editorial and production functions and by charging a uniform price of $.25 would more than offset transmission, receiving, and satellite operating costs. It might also cover the operating costs that would be required to expand the Stars and Stripes to include the Southern Command. If a consolidated Stars and Stripes were located in the United States, additional savings would be possible because the payments of overseas benefits to U.S. civilian employees would be reduced.

Achieving this level of financial benefits would cause some loss of timeliness in the news since only one edition would be printed. However, for most readers in Europe, the loss would be minimal and some readers would actually receive more timely news. For 20 percent of the European readers and all the Pacific readers, the news would be less timely by about 3 to 10 hours. If timeliness remains an obstacle to consolidation, it could be maintained at its current level by continuing to print multiple editions instead of going to only one edition, but printing multiple editions would reduce savings. In other words, financial benefits that would result from merging the newspaper operations must be weighed against the timeliness issue, keeping in mind that up-to-the-minute news is readily available from other sources.

Agency Comments and Our Evaluation

In a draft of this report, we recommended that the Secretary of Defense

- establish a single business and financial entity with responsibility for carrying out the Stars and Stripes mission; and
- take the steps necessary to merge the newspapers' editorial and production operations, probably in the United States, except for printing and local news gathering.

DOD disagreed with our recommendations, stating that consolidation is of questionable practicality since it would cause a major reconfiguration, and the benefits have not been assessed in a study with current financial data. Further, DOD said that our recommendations that the Stars and Stripes be consolidated were based on incorrect interpretation of three previous DOD reviews and insufficient analysis. DOD said that only one of the reviews recommended consolidation, and it is now 8 years old, and was based on general conceptualization.

DOD implied that consolidation would change the news content of the papers, including the unified Commanders' ability to disseminate information to the troops. DOD said that consolidation would create the need for additional newspapers in Europe and the Pacific for command news. DOD did agree, however, to do an in-depth study to identify what action should be taken to ensure the mission accomplishment and financial viability of the Stars and Stripes. DOD said that the study will include an evaluation of the merits of a potential consolidation of the Stars and Stripes entities.

We disagree that the 1977 Defense Audit Service (DAS) report, which specifically recommended consolidation, was based on general conceptualization. On the contrary, we believe that the report's recommendation for consolidation was the only viable means to reduce operating costs. At the time of the DAS report, reducing costs and increasing price would have been the only options available since authority did not exist to permit a revenue-producing resale activity to use appropriated funds to pay its civilian employees or to use official DOD mail to reduce nonappropriated-fund expenses. At that time, DOD did not have even the limited authority that was granted in 1979 to use brand name and price advertising. Consequently, the means later used to resolve the financial difficulties of the Stars and Stripes entities had no basis in 1977 and could not have been recommended since such recommendations would have been contrary to DOD policy.

As for our interpretation of the 1974 and 1978 DOD reviews, we believe that consolidation was being recommended, at least implicitly. The 1974 study recommended that the feasibility of consolidating the Stars and Stripes in Darmstadt, West Germany, be determined, after concluding that consolidation was practical. Also, one of the four recommendations in the 1978 staff study was that "ASD(PA) carefully consider the formation of an American Forces Stars and Stripes [one newspaper] to serve American Forces overseas that would take advantage of advancing newspaper and communications technology."

Our recommendations were not based solely on these three DOD reviews; we considered current trends in the national and international newspaper industry as well. We believe that those past studies and their arguments for, or positions on, consolidating the Stars and Stripes are more valid today because of the advances that have occurred since 1977 in newspaper and communications technology. Consolidating the editorial function and transmitting the edited paper via satellite to decentralized printing locations, as is done by the International Herald Tribune and USA Today, is a viable, practical, and economical means of providing an international newspaper. Current technology makes consolidation more feasible and practical.

We disagree that consolidation would cause a major reconfiguration or additional papers for command news. The newspaper's physical appearance and content would not need to change—only its management and operations. However, we have no objection to another study before such an important decision as consolidation is made. We believe that the study should begin as soon as possible, address ways to reduce appropriated-fund support, and be reported to the Secretary of Defense.

Recommendation

We recommend that the Secretary of Defense direct that the Stars and Stripes study begin as soon as possible, address consolidation and alternative ways to reduce appropriated-fund support, and be reported to him.

Areas Served by the Stars and Stripes Entities

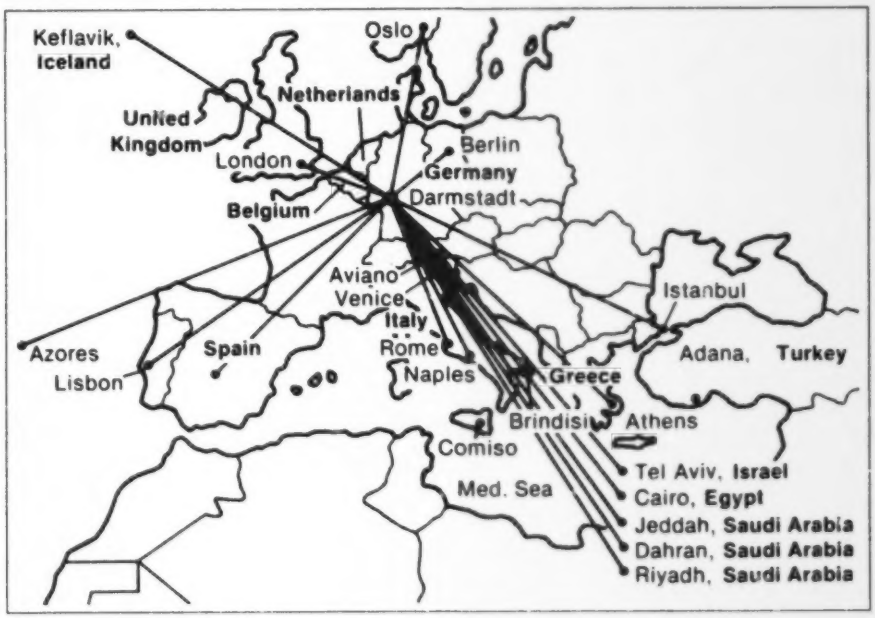
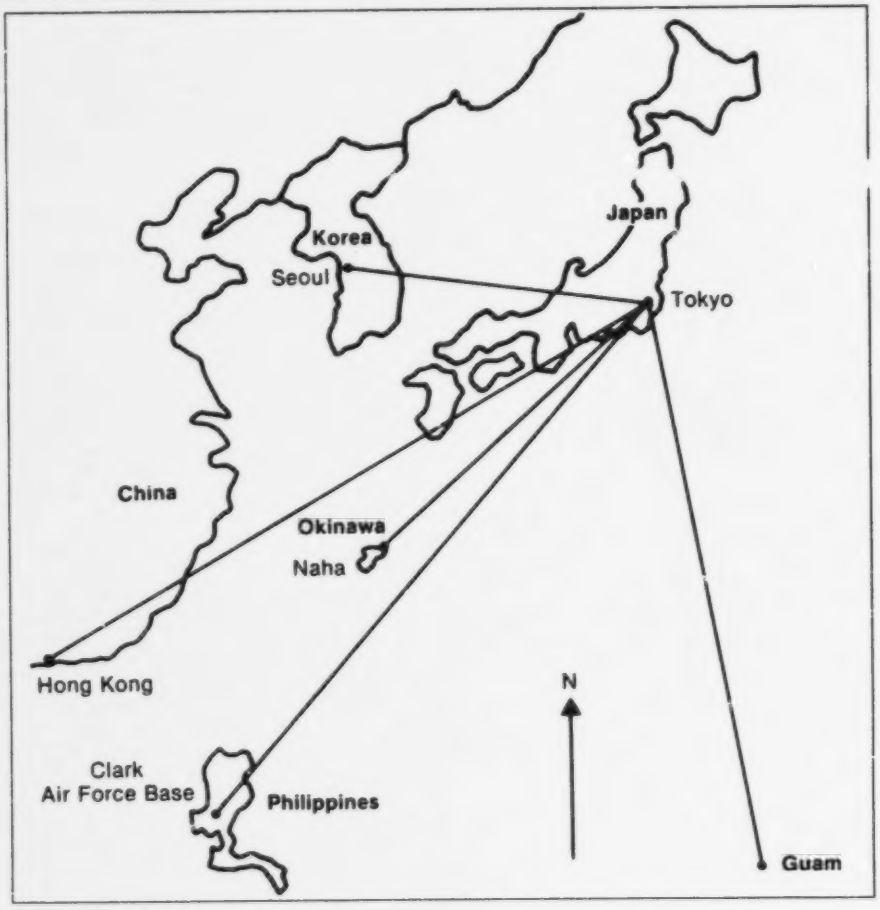


Figure I.1: Area Served by the European Stars and Stripes

Figure I.2: Area Served by the Pacific Stars and Stripes



Summary of Audited Balance Sheets and Income Statements

Balance Sheet	European Stars and Stripes 24 Sept. 1984	Pacific Stars and Stripes 30 Sept. 1984
Current Assets:		
Cash	$ 1,674,428	$ 1,001,553
Investments	2,141,005	1,421,372
Receivables	2,085,797	975,131
Inventories	10,956,625	2,410,813
Prepaid expenses	244,328	98,791
Total current assets	**$ 17,102,183**	**$ 5,907,660**
Fixed assets	4,622,574	2,461,126
Sinking funds	10,359,000	3,690,414
Other assets	19,430	42,702
Total assets	**$ 32,103,187**	**$ 12,101,902**
Current liabilities	$ 7,395,649	$ 3,949,852
Long-term liabilities	1,518,976	390,457
Total liabilities	**$ 8,914,625**	**$ 4,340,009**
Fund equity	23,188,562	7,761,893
Total liabilities and fund equity	**$ 32,103,187**	**$ 12,101,902**

Net Income for Two Years Ended	European Stars and Stripes 24 Sept. 1984	Pacific Stars and Stripes 30 Sept. 1984
Income from operations	$ 6,565,031	$ 2,169,447
Interest income	2,193,927	856,828
Other income (net of other expenses)	345,521	117,649
Reevaluation of balance-sheet accounts denominated in Japanese yen		(32,152)
Net income	**$ 9,104,479**	**$ 3,121,772**

Comments From the Department of Defense

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301

PUBLIC AFFAIRS

APR 22 1986

Mr. Frank C. Conahan
Director, National Security and
International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

This letter and the enclosure constitute the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "Stars & Stripes," dated December 30, 1985 (GAO Code 391537), OSD Case 6906. The DoD disagrees with the majority of the GAO findings and recommendations.

The GAO appears to have placed unwarranted importance on the fact that the DoD included the Stars and Stripes organization in directives pertaining to general Morale, Welfare and Recreation Program activities, and that the organizations are identified as "Category II Other Resale and Revenue Sharing Activities" in the directives. The Stars and Stripes organizations are, in fact, hybrid entities that are not fully an appropriated fund activity, a nonappropriated fund instrumentality, or a typical Morale, Welfare and Recreation entity. The Stars and Stripes are included in DoD Directive 1015.1 to facilitate funds administration, not because they are resale activities in the traditional sense. The typical Morale, Welfare and Recreation activities are governed by DoD policy directives under the jurisdiction of the Office of the Assistant Secretary of Defense (Force Management and Personnel). The Stars and Stripes, however, are governed by DoD policy directives under the jurisdiction of the Office of the Assistant Secretary of Defense (Public Affairs), and these directives focus heavily on the mission-related aspects of the Stars and Stripes.

As a result of this apparent misunderstanding, the GAO arrived at some inappropriate conclusions. The Stars and Stripes, for example, are entitled to appropriated funds as a result of the mission-related aspects, not as a result of operating overseas as stated by the GAO. This is borne out by the fact that the Pacific Stars and Stripes was totally funded with appropriations for a number of years. As the GAO correctly points out, the Stars and Stripes currently are funded largely (87 percent) by U.S. Servicemen overseas acquiring the papers, with the balance provided by limited appropriations, revenues from reselling books and periodicals, and the sale of

advertising. In addition, the decision to sell advertising in the Stars and Stripes was based on a need to inform Servicemen of available goods and services, not simply to raise additional revenues.

Furthermore, advertising by the Stars and Stripes and by the commercial media are complementary, not to either's detriment. The DoD recognizes that some of the commercial media firms, many of which are foreign companies, believe that the Stars and Stripes compete with them for advertising dollars. That belief is incorrect. The commercial publications do demand-building brand advertising of commercial suppliers. The Stars and Stripes advertise the availability of specific goods and services provided in exchanges and other outlets limited to DoD personnel.

The GAO conclusions and recommendations that the Stars and Stripes be consolidated are based on an incorrect interpretation of three prior DoD reports. Only one of the three studies directly recommends consolidation. That study, which is now eight years old, was based on general conceptualizations. Rather than consolidation, the DoD, as recognized by the GAO, focused on resolving the previous Stars and Stripes' financial difficulties by other means, as was advocated in the most recent DoD study cited by the GAO report. In addition, funds which the GAO indicates could be used for consolidation are not reserves. A substantial portion of the capital structure of the European Stars and Stripes is working capital used in the day-to-day funds flow of business activity. The remainder is committed to long-established projects planned to substantially enhance operational efficiency and mission effectiveness. Consolidation would not obviate the need for the operational plant upgrades and working capital. An authorized reserve to buffer changes in the value of money is currently unfunded, and recent adverse currency shifts are generating additional pressures.

At the present time, sufficient analyses do not exist to support a consolidation decision. The DoD does agree, however, that an in-depth assessment should be conducted to identify actions necessary to assure the continued effectiveness and viability of Stars and Stripes. Accordingly, a study of the Stars and Stripes entities, under the auspices of a DoD Management Action Group, is planned for early FY 1987. This study will include an evaluation of the merits of a potential consolidation of the Stars and Stripes entities.

The DoD appreciates the opportunity to comment on the draft report.

Sincerely,

Robert B. Sims

GAO DRAFT REPORT - DATED DECEMBER 30, 1985
(GAO CODE 391537) - OSD CASE 6906

"STARS AND STRIPES"

DEPARTMENT OF DEFENSE COMMENTS

FINDINGS

Now on pp. 10 and 22 to 26.

- **FINDING A: Organization And Funding Of The Stars And Stripes.** GAO reported that the DoD has two separate newspaper entities, one in Europe and one in the Pacific, to provide news to its overseas personnel. According to GAO, the Stars and Stripes entities are within DoD's Morale, Welfare and Recreational Program and are classified as resale activities. Although resale activities are normally required to be self-supporting, GAO found that since they are located overseas, the Stars and Stripes entities are authorized appropriated-fund support for some expenses such as utilities, maintenance, and transportation. According to GAO, as resale activities, the Stars and Stripes entities engage in several revenue producing operations in addition to selling newspapers: the sale of other publications, the operation of a print shop, and the generation of revenue through advertisements placed in the newspapers. For FY 1984, GAO reported that $58.2 million of the $67.2 million of operating costs and expenses were paid with nonappropriated funds, and about $9 million were paid with appropriated funds. (pp. 1 and 9-12, GAO Draft Report).

  DoD Position: Partially Concur. The GAO description of the Stars and Stripes organization and funding is correct, except that Stars and Stripes is entitled to appropriated funds because of its mission, not because it is located overseas as stated by the GAO. The Stars and Stripes is identified as a Morale, Welfare and Recreation Program "Category II Other Resale and Revenue Sharing Activity" within DoD Directives for purposes of funds administration, not because it is self-supporting in the same sense as are other resale functions. This is evidenced by the fact that the Pacific Stars and Stripes was totally funded with appropriations for a number of years, despite its U.S. activities, and by the fact that other Morale, Welfare and Recreation activities fall under the jurisdiction of the Assistant Secretary of Defense (Force Management and Personnel). Stars and Stripes, however, are under the jurisdiction of the Assistant Secretary of Defense (Public Affairs), and the applicable Directives focus mostly on the mission aspects of Stars and Stripes.

ENCLOSURE

In actuality, Stars and Stripes are hybrid entities that do not fully meet the definition of either an appropriated fund activity, a nonappropriated fund instrumentality or a typical Morale, Welfare and Recreation Program entity. Further, because Stars and Stripes are viewed largely as mission activities, they are entitled to some appropriated fund support, not because they are located overseas. Even so, appropriated funds have been kept to a minimum, with 87 percent of FY 1984 funding derived from Stars and Stripes revenue producing activities. Because our forces overseas must be kept informed, their paying most of the cost should be viewed as a benefit to the taxpayers.

Additional information concerning Stars and Stripes funding is presented in the DoD position on Finding F.

o **FINDING B: Stars And Stripes Staffing.** GAO found that the staffs for the two Stars and Stripes entities differ significantly in size, composition and the way they are paid. GAO reported that as of early 1985, total staffing for the European Stars and Stripes was 641, while the Pacific entity was composed of 226 personnel. The primary reason for this difference, as cited by GAO, is that the European entity receives, breaks down and distributes its resale publications, while for the Pacific entity, area contractors perform these functions. Other staff differences noted by the GAO are the smaller editorial and production staffs of the Pacific entity and the larger number of military personnel that composes the Pacific Stars and Stripes. GAO also reported that only 23 of the European staff, but over half, or 121, of the Pacific staff are paid with appropriated funds. (pp. 14-15, GAO Draft Report)

Now on pp. 14 to 17.

DoD Position: Nonconcur. While the facts stated by GAO are correct, the DoD disagrees with the implication that the different staffing levels of the two Stars and Stripes reflect some type of deficiency, or result in an inappropriate use of appropriated funds. Rather, the Stars and Stripes entities operate in accordance with the mission requirements, geography, and business realities of their individual regions. The different modes of operation have resulted from past and current strategies and actions taken to accomplish the mission.

Mission requirements have fluctuated with the changing geopolitical requirements for deployments of U.S. Forces overseas. During the Southeast Asia conflict, for example, the Pacific Stars and Stripes had larger circulation than the European Stars and Stripes, and a much larger staff. Now, it has approximately one third of the circulation and a smaller staff. The difference in the proportion of staff

paid with appropriated funds is discussed in the DoD response to Finding F.

Additional information concerning Stars and Stripes appropriated funding is also presented in the DoD response to Finding F.

o **FINDING C: Studies Have Recommended That The Stars And Stripes Entities Be Consolidated.** GAO reported that because of the Pacific Stars and Stripes financial difficulties in the 1970's, three DoD studies have recommended that the two Stars and Stripes entities be consolidated. GAO reported that the first two studies, a September 1974 Management Study and a 1977 Defense Audit Service (DAS) Report, suggested consolidation of Stars and Stripes functions in Darmstadt, Germany. According to GAO, a third study in February 1978, concluded that consolidation was feasible, but was imprudent if the two entities could be kept financially viable through other means. GAO found that the Stars and Stripes entities chose to resolve their financial difficulties by means other than consolidation, including increasing their revenues by selling advertising and seeking special appropriated funds. GAO concluded that as a result of these measures and the strength of the dollar overseas, both entities are now enjoying a favorable financial position and each has reserves set aside for expansion and modernization. (pp. 15-18, GAO Draft Report)

Now on pp. 28 to 29.

DoD Position: Partially Concur. The DoD agrees that the measures taken have improved the financial position of the Stars and Stripes. The DoD does not agree that "...several studies recommended that the two Stars and Stripes entities be consolidated" as reported by the GAO. Only one of the three studies cited by the GAO actually recommended this alternative. The 1977 DAS study recommended consolidation. The 1974 study recommended that the feasibility of consolidation be determined, while the 1978 staff study, although acknowledging the feasibility of consolidation, concluded that consolidation was imprudent if the two Stars and Stripes entities could be kept financially viable through other means. The actions to enhance the Stars and Stripes financial viability have been in line with the most recent of these studies. (See also DoD comments to Findings I and J for additional information on consolidation). Also, advertising is not a major source of funds as discussed in the DoD comments to Finding D.

o **FINDING D: Policy Concerning Advertising In The Stars And Stripes.** GAO reported that until 1976, advertising in Government publications was clearly prohibited by the

Congressional Joint Committee on Printing (JCP), pursuant to Public Law 314, dated March 1, 1919. According to GAO, the JCP gave several reasons to justify this prohibition, involving principles of fairness and impartiality. GAO found, however, that in 1976, DoD was able to convince the JCP that an exception to this advertising policy was necessary for Stars and Stripes in order to improve their financial situation without increasing the amount of appropriated fund support received. GAO found that from 1976 to 1979, several forms of advertising were approved. In November 1984, GAO reported the DoD broadened the advertising policy even further, lifting the restriction on the use of prices and brand names and expanding the definition of authorized advertisers. According to GAO, many publishers of commercial newspapers have complained about the Stars and Stripes advertising policy, stating that the Government is unfairly competing with private companies, possibly resulting in their future revenue losses. As a result of these complaints, GAO reported, the Chairman, JCP, asked the Secretary of Defense in September 1985 to reconsider its advertising policy. (pp. 21-25 and 30-31, GAO Draft Report)

Now on pp. 30 to 37

DoD Position: Nonconcur. The DoD does not agree that the purpose of Stars and Stripes advertising is financial or that the use of prices and brand names in advertising was first approved in 1984. The DoD also does not agree that the Stars and Stripes are competing unfairly with private companies.

The primary purpose of advertising in Stars and Stripes is to provide an additional source of information to overseas forces concerning the availability of goods and services. This point was underscored in a July 29, 1985 letter from the Deputy Defense Inspector General to the Chairman, Joint Committee on Printing, which concluded that Stars and Stripes advertising was extremely useful, and that the readership depended heavily on the advertising as a source for information. This letter also confirmed the minor contribution of advertising revenue, which amounted to only about 2.3 percent of total revenues received by the Pacific entity in FY 1983.

The 1984 advertising policy update was more a clarification of policy than an expansion. On several occasions prior to 1984, correspondence between the DoD and JCP resulted in changes to the Stars and Stripes advertising authority, permitting the use of prices and brand names. The 1984

update was carefully coordinated with the JCP, and merely consolidated these prior authorizations and stated them in clearer language. (See DoD response to Finding E for further discussion).

Contrary to the belief of some U.S. and foreign publishers, who aim their publications at DoD personnel overseas, advertising by the Stars and Stripes and the commercial media are actually complementary, not detrimental. Advertising in Stars and Stripes is limited to goods and services provided in authorized outlets that sell only to DoD personnel and their families. The Stars and Stripes primarily advertise product availability in these outlets. Advertisers use commercial publications aimed at DoD personnel overseas as a means of building brand awareness of their products and demand, a form of advertising that Stars and Stripes is prohibited from soliciting or accepting from commercial advertisers. The Stars and Stripes advertising, therefore, complements the commercial publications and only serves to enhance the awareness of product availability in outlets available only to DoD personnel.

- **FINDING E: Advertising Practices Of The Stars And Stripes Entities.** GAO reported that European Stars and Stripes officials stated that the most significant change in the new policy was allowing publication of prices and brand names. GAO found that prior to the policy change, the European Stars and Stripes would publish only price ranges or amounts of reduction, and would publish brand names only in rare instances. In addition, GAO found that the policy change expanded the definition of authorized advertisers to include, "host-government instrumentalities that offer goods and services to DoD personnel," that the European Stars and Stripes Advertising Coordinator interprets as authorizing acceptance of advertising from state run airlines, railroads or related services. GAO questioned that interpretation. GAO also questioned whether some concessionaires that are not permanently located at a nonappropriated fund activity should be considered authorized advertisers. With regard to the Pacific Stars and Stripes, GAO reported that this entity implemented the instruction in some ways that violate DoD's guidelines. As an example, GAO reported that the instruction prohibits the acceptance of advertising from commercial sources that are not DoD authorized; however, Pacific Stars and Stripes has run full-page advertisements announcing special air fares that were solicited directly from and paid for by the airlines. (pp. 25-28, GAO Draft Report)

Now on pp 32 to 36

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DoD Position: Partially Concur. As stated in the DoD comments to Finding D, the 1984 updated policy statement on advertising in DODI 5120.4 was primarily a consolidation and improved articulation, rather than a change or expansion. The JCP originally authorized the use of prices and brand names in Stars and Stripes advertising seven years ago on January 23, 1979. The implementation of this practice by the Pacific Stars and Stripes was closely coordinated with the JCP.

The European Stars and Stripes, on the other hand, chose to take a less aggressive approach to its advertising practices until the policy was further clarified. This clarification was eventually achieved in the November 1984 instruction update. (See DoD response to Finding D).

While the DoD agrees that some problems were experienced in implementing the advertising policy, the DoD is aware of only the one violation of advertising policy at the Pacific Stars and Stripes involving air fare advertising, not several as reported by the GAO. That problem was corrected by Pacific Stars and Stripes as soon as it was discovered. Other problems reported by GAO appear to involve misunderstandings of the new policy at the European Stars and Stripes. Subsequent to GAO's work, the DoD has provided further guidance to the Stars and Stripes entities.

- **FINDING F: Appropriated-Fund Support Of The Stars And Stripes.** GAO reported that although DoD's major argument to allow advertising in Stars and Stripes was to enable them to sustain themselves with a minimum of appropriated-fund support, the level of this support has grown from $3.7 million in FY 1977 to about $9 million in FY 1984. In addition, GAO found that since 1981 the Stars and Stripes entities have received types of appropriated funds that other resale activities are not authorized to use. Examples cited by GAO include (1) the use of official DoD mail to distribute the European Stars and Stripes, the cost of which amounted to about $1.5 million in FY 1984, and (2) the use of appropriated funds to pay Japanese civilians working for the Pacific Stars and Stripes, involving 77 positions and costing about $1.2 million for FY 1984. GAO noted that at Congressional behest, the DoD revised Directive 1315.10 to emphasize the maximum use of nonappropriated funds for paying civilians. In revising the Directive the DoD made an exception to its policy so that Stars and Stripes could use appropriated funds to pay its civilian employees, which GAO concluded was done to ensure the financial viability of the Pacific entity. GAO observed that by using appropriated

Now on pp. 37 to 41.

funds to reduce non-appropriated fund expenses, profits of the two Stars and Stripes entities have increased, enabling them to modernize and expand operations, and allowing the European entity to keep its price at $0.15. (pp. 31-37, GAO Draft Report)

DoD Position: Nonconcur. While some of the facts reported by GAO are correct, the DoD does not agree with GAO's interpretation of the role of advertising income in the Stars and Stripes total funding support (see DoD comments to Finding D). Neither does the DoD agree with the GAO implication that Stars and Stripes is improperly receiving appropriated funds. The GAO report also does not adequately identify the real growth of appropriated funding and, by not describing the factors involved in international economics, inaccurately portrays actions taken by DoD to pay some civilian personnel with appropriated funds. Further, GAO does not identify the real significance of Stars and Stripes modernization and expansion.

The GAO report states that since 1981, the European Stars and Stripes has used official DoD mail to distribute the newspaper, and implies the practice is improper since other resale activities are prohibited from using this means of distribution. In fact, the resale activities of Stars and Stripes also do not use official DoD mail and are specifically prohibited from doing so. As discussed in DoD's comments to Finding A, however, Stars and Stripes are hybrid entities that are viewed largely as mission activities and are entitled to appropriated fund support. The newspaper activities of Stars and Stripes, as a result of the mission aspects, are specifically authorized use of official DoD mail for remote and isolated areas outside of Germany. The Pacific Stars and Stripes would also be entitled to do so, except that entity is authorized direct distribution and the Services fund the cost.

With regard to the reported growth of $5.3 million in appropriated funding, the GAO does not adequately attribute this growth to two important factors that account for about one-half of this growth: (1) the use of official DoD mail beginning in 1981, and (2) payment of salaries to Japanese civilian workers, also beginning in 1981, who support the Pacific newspaper operations. These Japanese employees work only for the mission related newspaper operations, and not any aspect of Stars and Stripes resale activities. This procedure is available to any Nonappropriated Fund Instrumentality and was done with full Congressional knowledge.

Use of appropriated funds to pay Japanese employees was only one of many initiatives taken to deal with the international economics environment in which the Stars and Stripes operate. Adverse forces in this environment in the early to mid-1970's included the Southeast Asia troop reduction (causing circulation to drop from 242,000 to 40,000), considerable weakening of the Dollar against the Yen, and general inflation. By using appropriated funding, protection was afforded the Pacific entity against the drastic changes in the relative value of the Yen and Dollar. The funding also made possible cost-cutting and capital investment actions to strengthen the entity's overall financial position.

The primary reasons for expanding Stars and Stripes were to increase revenues and cut costs, and to improve overall service to DoD personnel. The end goals are to permit DoD personnel overseas to maximize the use of their funds to provide them the best possible service at minimum cost, and to assure continued financial viability of the Stars and Stripes.

o **FINDING G: Factors To Consider In Consolidating Stars And Stripes.** As discussed in Finding C, GAO reported that several DoD studies have determined that consolidation of the Stars and Stripes entities is practical and feasible, but that first, a number of management decisions would have to be made. According to GAO, financial operations could be consolidated immediately, but decisions are needed concerning what the new entity would be, how the paper would be managed, where the central editorial and production facilities would be located, what the editorial and production procedures would be, and how the consolidation would be financed. GAO discussed each of these factors and noted that merging the newspaper functions would offer economic benefits. GAO pointed out, however, that only the Secretary of Defense has the authority to make a consolidation decision and, to GAO's knowledge, this issue has not been presented to him. (pp. 38-43, and 57, GAO Draft Report)

Now on pp. 44 to 49

DoD Position: Partially concur. The DoD agrees that many factors must be considered in effecting a management change, whether or not consolidation is involved. As discussed in the DoD comments to Finding C, however, only one of the three cited studies directly recommended consolidation. Further, based on available information, the DoD does not agree that financial operations could be consolidated immediately. Even if consolidation produced a net savings, the sometimes adverse forces of currency fluctuation, inflation and changing force strength remain.

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The GAO is correct that a consolidation proposal has not been presented to the Secretary of Defense. The reason for this is that sufficient analysis of the management and cost aspects of consolidation has not been developed to make such a recommendation. Instead, attention has been focused on initiatives to restore and maintain the financial viability of the Stars and Stripes entities. The DoD will continue to review management options for Stars and Stripes and, in fact, plans to conduct an in-depth study of the Stars and Stripes structure and operations to identify viable improvement options.

o **FINDING H: Financing The Consolidation.** GAO reported that at the end of FY 1984, reserves of the two Stars and Stripes entities totaled $14 million, which could provide the capital investment necessary for consolidation. To minimize the capital investment, GAO reported that existing equipment could be utilized, such as three existing presses and digitized editorial equipment at the Pacific Stars and Stripes. In addition, GAO found that $8.2 million of the $14 million of reserves has been earmarked for projects requiring Congressional approval. Based on its analysis, however, GAO concluded that several of these projects, such as the European entity buying a new press and constructing a new editorial annex and warehouse, may be unnecessary if consolidation is implemented and advertising reduced or prohibited. GAO reported that, based on DoD's rough estimates for the cost of transmitting and receiving equipment, the $8.2 million available from these projects should be more than sufficient to cover capital investment costs to buy and house the equipment necessary to consolidate the editorial, production and business functions. (pp. 43-44, GAO Draft Report)

Now on pp. 47 to 49.

DoD Position: Nonconcur. The DoD does not agree that Stars and Stripes funds committed to business improvement could be used for consolidation, or that the projects identified by the GAO could be eliminated in a consolidation scenario. In addition, Stars and Stripes financial reserves established to handle changes in the relative value of currencies are unfunded. Currently, there are adverse currency pressures.

Further, even if the Stars and Stripes entities were consolidated, printing of the newspaper overseas would still be required and distribution requirements would not be altered. A new press would still be required to replace the current obsolete equipment. Drop shipping could eliminate the need for the warehouse at Darmstadt, but other smaller facilities would then be required, likely offsetting any potential cost savings.

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- **FINDING I: Advantages Of Consolidating Stars And Stripes.** GAO reported that consolidating the two Stars and Stripes entities into one with merged newspaper operations offers many advantages.

  (1) According to GAO, the major advantage would be an improved financial condition as a result of reducing costs and increasing profits. GAO reported that consolidation would reduce the number of Stars and Stripes staff needed and would enable the papers to be sold for a reasonable and uniform price of $0.25. Based on its analysis of the 1977 DAS report, a comparison of the staffs of the International Herald Tribune and the Stars and Stripes, and the establishment of a $0.25 uniform price for the newspaper, GAO estimated that the changes would have resulted in FY 1984 increased profits of $2.5 million. GAO reported that additional savings from consolidation were possible if the merged staffs were located in the U.S. and only one entity, rather than two, was purchasing news from wire services.

  (2) A second advantage of consolidation reported by GAO is that resources could be allocated where and when they are needed. According to GAO, at the present time, the profits of the two entities are not shared.

  (3) A third advantage of consolidation, according to GAO, is that all overseas DoD personnel could receive a Stars and Stripes newspaper. At present, GAO reported, Southern Command personnel do not receive Stars and Stripes because it is too costly. GAO concluded that a consolidation might make it economically feasible for them to do so.

  Based on its analysis, GAO concluded that a consolidation of operations would be the best way to minimize the level of advertising and appropriated-fund support for the Stars and Stripes. (pp. 38, 45-53, and 57-58, GAO Draft Report)

Now on pp. 49 to 55.

DoD Position: Nonconcur. The three advantages of consolidation identified in the GAO report are flawed. First, the report does not demonstrate any specific "improved financial condition" that would result from consolidation. Second, there is no need to consolidate the two entities in order for them to share resources. Third, there is not enough current financial data available to demonstrate the feasibility of distributing Stars and Stripes to the Southern Command.

With regard to the first advantage cited, GAO compares the size of the International Herald Tribune staff with that of a postulated merged Stars and Stripes staff. The GAO notes that the Tribune has an editorial staff of 62 to produce a daily newspaper that averages 20 pages, which GAO states would be nearly the equivalent in size to a 40 page Stars and Stripes. The GAO assessment, however, does not consider the normal news to advertisement ratio that is established at all commercial newspapers, which might also be applicable to the Stars and Stripes. If this relationship were considered, a commercial newspaper such as the Tribune would have to average about 70 to 80 pages in length to compare with the amount of news currently carried by the European Stars and Stripes. An application of this standard to Stars and Stripes also would affect other functional staff requirements cited by the GAO.

The GAO also reports that most of the living quarters allowances paid for overseas U.S. citizens could be saved if the merged staffs were located in the U.S. Some of the U.S. citizens currently working for Stars and Stripes are actually local hires, however, and do not receive housing and home leave allowances. Higher wage rates would also have to be paid to workers located in the U.S., thereby reducing any potential savings.

The GAO analysis also assumes that savings would result if one newspaper entity, rather than two, was purchasing news from the wire services. Wire services, however, base their charges on the size of a newspaper's circulation, not the number of terminal hook-ups. Since circulation would not be affected by a consolidation, no savings from wire service costs would result.

With regard to the second consolidation advantage cited by GAO, it should be noted that, as discussed in the DoD comments to Finding H, the primary purpose of the currently unfunded Stars and Stripes reserves is to handle changes in the value of money. The updated DoD instruction provides a mechanism whereby these reserve funds not needed by one entity could be transferred to the other to deal with adverse currency situations. Although this action would be taken only after careful consideration, the ability to take the action negates this alleged advantage of consolidation.

The third advantage of consolidation cited by GAO is that a Stars and Stripes could be made available to the Southern Command. There, however, is already a Unified Command newspaper called the Southern Command News, published for the relatively small number of personnel in the Southern

Command. The GAO does not recognize the existence of this paper, or establish a need for another newspaper in the Southern Command.

As discussed in the DoD response to Finding G, the DoD does not agree that sufficient analysis has been performed to conclude that consolidation of Stars and Stripes would be a prudent and effective alternative. An in-depth study of the Stars and Stripes structure and operation is planned for the beginning of FY 1987.

o **FINDING J: DoD Objections To Consolidation.** GAO reported that DoD has objected to consolidating Stars and Stripes for two reasons: (1) DoD believes that a consolidated Stars and Stripes would lose its local character; and (2) a consolidated Stars and Stripes would be less timely. According to GAO, however, the local character of the newspaper could be retained by designating a certain number of pages for local news, a practice already being done by the Pacific Stars and Stripes. With regard to the timeliness issue, GAO reported that a single edition of Stars and Stripes would be less timely, although timeliness could be improved by maintaining the number of editions currently published. GAO found, however, that this would reduce the savings resulting from consolidation. GAO further found that timely news is available to military personnel from other sources, such as the Armed Forces Radio and Television Network and other commercial English language newspapers. In addition, GAO pointed out that for seven of the nine current multiple editions of Stars and Stripes, the news is already about a day old, since the editions are post-dated. GAO concluded, therefore, that the loss in timeliness of Stars and Stripes may not be a significant problem. (pp. 53-59, GAO Draft Report)

Now on pp. 55 to 58.

DoD Position: Nonconcur. The potential loss of the cross-flow of military information and news within the European Command and the Pacific Command areas, and timeliness continue to be valid arguments against consolidation. The DoD does not agree with GAO's views as to how Command coverage could be retained, or with the GAO conclusion that timeliness might not be a significant problem.

The local character of a newspaper is maintained by its being a part of the locality and knowing the Command views. Designating several pages as local news, as suggested by GAO, does not automatically retain the local flavor of the news. Rather, as is done for the European Stars and Stripes, the newspaper must be tailored for its unique

readership based on the professional judgment of the locally-based editorial staff.

With regard to the timeliness issue, what the GAO suggests as acceptable would be the same as having Washington Post readers receive their newspaper the following day. The reason for the existence of any newspaper is to provide the most timely, in-depth news possible to its readers. European Stars and Stripes readers in central Germany have available, in their morning newspaper, reports of matters that happened several hours after the end of the previous working day.

The news available from radio and television sources is not the same, and properly should not be compared with the news available from a newspaper. News in the broadcast media is generally limited in that it contains fewer details and is geared toward material that can be illustrated. In addition, Stars and Stripes is more available to personnel on duty than is either the radio or television.

The other newspapers available to military personnel overseas lack the timeliness and Command coverage of Stars and Stripes. For example, in Europe the International Herald Tribune is printed six days a week, while the Wall Street Journal and USA Today are published five days a week, not seven as is Stars and Stripes. These other newspapers are also more expensive and are aimed at different audiences than is Stars and Stripes. As an indication of their acceptance, these newspapers are available on the same newsstands as Stars and Stripes, and only about 1,500 copies of each is sold daily, as compared with 130,000 copies of Stars and Stripes.

The DoD does not understand GAO's point in the statement that seven of nine editions of the European Stars and Stripes are postdated. Every morning paper in the world is dated "the following day" even though they are all on the press around midnight of the day before, at the very latest. The paper's edition times are dictated by the length of time it takes to get the paper from the press to the reader. Papers are constantly trying to get later papers to their readers to offer better service. The Stars and Stripes, therefore, is no different than other newspapers in this regard.

RECOMMENDATIONS

- **RECOMMENDATION 1:** GAO recommended that the Secretary of Defense establish a single business and financial entity with responsibility for carrying out the Stars and Stripes mission. (p. 59, GAO Draft Report)

Now on p. 60.

DoD Position: Nonconcur. (See the response to Recommendation 2.)

- **RECOMMENDATION 2:** GAO recommended that the Secretary of Defense take the steps necessary to merge the newspapers' editorial and production operations, probably in the United States, except for printing and local news gathering. (p. 59, GAO Draft Report)

Now on p. 60.

DoD Position: Nonconcur. As discussed in the DoD comments to Findings G through J, the DoD does not agree that sufficient analyses exist to support a consolidation decision. The DoD intends, however, to conduct an in-depth study, under the auspices of the DoD Management Action Group, to identify what action should be taken to ensure the mission accomplishment and financial viability of the Stars and Stripes. The DoD plans to conduct this study during FY 1987. The DoD also will continue to review the other management issues raised by the GAO to identify any other action that may be necessary or beneficial.

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